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NATIONAL PLANNING COMMITTEE SERIES

TRADE

Report of the Sub-Committee)

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KASTURBHAI LALBHAI

Secretary

PROF. J. J. ANJARIA, M.A., M. Sc.

Edited by

K. T. SHAH

Honorary General Secretary

NATIONAL PLANNING COMMITTEE

VORA & CO., PUBLISHERS LTD.

3, ROUND BUILDING, KALBADEVI ROAD, BOMBAY 2.

First Edition, November, 1947

Price Rs. 6/- only

To

All Those

MEMBERS OF THE NATIONAL PLANNING COMMITTEE

and of

Its Various Sub-Committees

A TRIBUTE OF APPRECIATION

प्रारब्धमुत्तमजना न परित्यजन्ति

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PREFACE

The National Planning Committee appointed in 1938, began its work early in 1939. After defining the nature of a National Plan, and determining the nature and scope of the work entrusted to them, the Committee issued an elaborate and comprehensive questionnaire which was subsequently supplemented by specific details. Twenty-nine Sub-Committees, formed into eight groups were set up with special terms of reference to deal with all parts and aspects of the national life and work in accordance with a predetermined Plan.

After some unavoidable delay in getting replies to the Questionnaire, the Sub-Committees began their work, and submitted Reports,—some of them Final, some Interim,—which were considered at Plenary Sessions of the Parent Committee in 1940. Towards the end of that year the Chairman, Pandit Jawaharlal Nehru, was arrested and sentenced to a long term of imprisonment, during which the work of the Committee had necessarily to be suspended.

On his release a year later, hope revived for an intensive resumption of the Committee's work. But the outbreak of war with Japan, the threat to India's own safety, and hectic march of political events, rendered it impossible to devote any attention to such work at that time. It, therefore, inevitably went into cold storage once again; and remained for the duration of the war.

When at last the War seemed nearing its end, Pandit Jawaharlal Nehru with other leaders was released. The moment seemed again opportune to resume the work of

the Planning Committee. Meetings of that Body were held in September and November 1945, when certain more urgent questions, already included in the programme of the National Planning were given a special precedence. A Priority Committee was appointed to report upon them. Changes and developments occurring during the War had also to be taken into account; and another Committee was appointed to review the general instructions, given six years earlier to the Sub-Committees. Revised instructions were issued to them following the Report of this Sub-Committee; and the Chairmen and Secretaries of the several Sub-Committees were once again requested to revise and bring, up to date, such of the Reports as had already been submitted —either as final or interim—while those that had not submitted any reports at all were asked to do so at an early date.

As a result, many of the Sub-Committees which had not reported, or had made only an Interim Report, put in their Reports, or finalised them. The Parent Committee has had no chance to review them, and pass resolutions on the same. But the documents are, by themselves, of sufficient value-prepared as they are, by experts in each case, to be included in this series.

The following Table shows the condition of the Sub-Committee's work, and the stage to which the Planning Committee had reached in connection with them.

Serial No.	Name of the Sub-Committee.	Final Report		Interim Report		No Reports
		N.P.C. Resolutions	Not considered by N.P.C.	N. P. C. Resolution	Not considered by the N.P.C.	
Group I.	**Agriculture & other Sources of Primary Production**	Handbook Pp.		Handbook Pp.		
1.	Rural Marketing and Finance	97-99				
2.	River Training and Irrigation Part I	83-85				
	,, ,, ,, Part II	113-115				
3.	Soil Conservation and Afforestation	115-119				
4.	Land Policy and Agriculture			139-141		
5.	Animal Husbandry and Dairying	87-89				
6.	Crop Planning and Production				do.	do.
7.	Horticulture	102-103				
8.	Fisheries		do.			
Group II	**Industries or Secondary Sources of Production**					
1.	Rural and Cottage Industries					
2.	Power and Fuel		do.			
3.	Chemicals					
4.	Mining and Metallurgy			77-79		
5.	Engineering Industries	75-77		130-133		
6.	Manufacturing Industries		do.			
7.	Industries connected with Scientific Instruments		do.			
Group III	**Human Factor**					
1.	Labour	89-92				
2.	Population	85-87				
Group IV	**Exchange and Finance**					
1.	Trade					do.
2.	Industrial Finance			130		
3.	Public Finance					
4.	Currency and Banking			122-126		
5.	Insurance			93-95		
Group V	**Public Utilities**			95-97		
1.	Transport					
2.	Communications	126-129		120-122		
Group VI	**Social Services-Health and Housing**					
1.	National Housing					
2.	Public Health	99-100				do.
Group VII	**Education**					
1.	General Education			133-139	do.	
2.	Technical Education				do.	
Group VIII	**Woman's Role in Planned Economy**					

To sum up, fourteen Sub-Committees had made final reports, of which ten have been considered, and Resolutions taken upon them, by the National Planning Committee. Twelve more have presented Interim Reports, of which nine have been considered by the Planning Committee, with Resolutions thereon, while three Sub-Committees have not yet presented any report on the reference made to them.

The idea that all this material, gathered together with the help of some of the best brains in India in the several departments of our national life, should be printed and published was before the Committee from the start. But the interruption caused by the war prevented its realisation. It was once again mooted in 1941; but the moment was not deemed ripe then for such action, partly because the leading spirits in almost every one of the Sub-Committees were unable to devote time and labour to bring their Reports up-to-date; and partly also because war-time restrictions or shortages had made scarcer than ever before the statistics and other facts, which particular sub-committees would need, to bring their work up-to-date. The War time needs of Government had attracted several of them to work on Government Bodies, Panels, or Committees. For all these reasons it was deemed undesirable that material of this character—valuable as it must be—should be put out in an incomplete, inchoate, obsolete form, which may reflect unfavourably upon Indian capacity for such tasks.

The last four years of the War were thus a period of suspended animation for the National Planning Committee. Even after the end of the war, it has not been feasible for obvious reasons, for the Planning Committee to resume its work and finalise decisions. Continuous Sessions of that body are indispensable for considering and taking decisions on the Sub-Committee reports presented since 1940, and putting all the material into shape, ready for publication, not to mention making its own Report; but the political situation in the country made it impossible. Other conditions, however, are somewhat more favourable than in 1938-39, when the Central Government of the country were all but openly hostile to such attempts. Lest, however, the momentary difficulties make for needless further delay, it was thought advisable by the Chairman and the undersigned that no more time should be lost in putting this material before the Public. Following this advice, it is now proposed to bring out a complete Series of the National Planning Committee's Sub-Committee Reports, which will

serve as appendices to the Parent Committee's own Report. The Plan of the proposed enterprise is briefly summarised below.

Every Sub-Committee's Report, which is in a final form and on which the National Planning Committee has itself taken resolutions, will be edited and published, with an Introduction assigning their due importance to the suggestions and recommendations contained in that particular report, its proper place in the over-all National Plan; and following it up, wherever necessary, by a kind of Epilogue, summarising the developments that have taken place during the seven years, during which the work of the Planning Committee had been in suspension.

Those Reports, again, which, though in a final form, have not yet been considered, and no resolutions taken thereon, by the Planning Committee, will also be included in the Series in the form in which they were submitted, with such Introduction and Epilogue to each as may be deemed appropriate. And the same treatment will be applied to Reports which are 'Ad Interim', whether or not the Parent Committee has expressed any opinion on the same. They will be finalised, wherever possible, in the office. with such aid as the Chairman or Secretary of the Sub-Committee may be good enough to render. Sub-Committees finally, which have not submitted any Report at all, —they are, very few,—will also find their work similarly dealt with. The essence, in fine, of the scheme is that no avoidable delay will now be suffered to keep the National Planning Committee's work from the public.

Both the Introduction and the Epilogue will be supplied by the undersigned, who would naturally be grateful for such help as he may receive from the personnel of each Sub-Committee concerned. The purpose of these additions is, as already stated, to assign its true place to each such work in the overall Plan; and to bring up the material in each Report to date, wherever possible.

Not every Sub-Committee's Report is sufficiently large to make, more or less, a volume by itself, of uniform size, for this Series. In such cases two or more Reports will be combined, so as to maintain uniformity of size, get-up, and presentation of the material. The various Reports, it may be added, would not be taken in the order of the classification or grouping originally given by the Planning Commit-

tee; nor even of what may be called the intrinsic importance of each subject.

In view of the varying stages at which the several Reports are, for reasons of convenience, it has been thought advisable to take up for printing first those which are final, and on which the Planning Committeee has pronounced some resolutions. Printing arrangements have been made with more than one Press, so that two or three Reports may be taken simultaneously and published as soon as possible so that the entire series may be completed in the course of the year.

Two other Sub-Committees not included in the list of Sub-Committees given above, were assigned special tasks of (1) preparing the basic ideas of National Planning; and (2) outlining the administrative machinery deemed appropriate for carrying out the Plan. These were unable to function for reasons already explained. The present writer has, however, in his personal capacity, and entirely on his own responsibility, published the "Principles of Planning" which attempt to outline the fundamental aims and ideals of a National Plan which remains to be considered by the Planning Committee. Similarly, he has also attempted to sketch an administrative machinery and arrangements, necessary to give effect to the Plan, when at last it is formulated, and put into execution. Notwithstanding that these two are outside the Scheme outlined in this Preface, they are mentioned to round up the general picture of the arrangements made for publication of the entire work up-to-date of the National Planning Committee and its several Sub-Committees.

The several volumes of Sub-Committee Reports, when published, will be treated as so many appendices to the Report of the parent body, the National Planning Committee. It is impossible to say when that Committee, as a whole, will be able to hold continuous sessions, review and resolve upon Sub-Committee Reports which have not yet been considered, and lay down their basic ideas and governing principles for an all over Plan, applicable to the country, including all the facts of its life, and all items making up the welfare of its people.

The disturbed conditions all over the country, and the Labour unrest that has followed the end of the War has caused unavoidable delays in printing and publishing the

several volumes in the Series, which, it is hoped, will be excused.

In the end, a word of acknowledgment is necessary to put on record the aid received by the Editor in the preparation and publication of this Series. All those who are associated in the task,—members of the Parent Committee, or as Chairmen, Secretaries or Members of the various Sub-Committees, have laboured wholly, honorarily, and consistently striven to give the best that lay in them for the service of the country. Almost all Provincial Governments and some States,—the latter twice in some cases,—have made contributions towards the expenses of this office, which have been acknowledged and accounted for in the Handbooks of the Planning Committee, published earlier. Suitable appreciation of these will be expressed when the Parent Committee makes its own Report. At almost the end of its task, the expenditure needed to edit, compile, and otherwise prepare for the Press, the several Reports, has been financed by a Loan by Messrs. Tata Sons Ltd., which, even when repaid, will not diminish the value of the timely aid, nor the sense of gratitude felt by the undersigned.

Bombay,
1st July, 1947.

K. T. Shah

The annexures to this Report have been omitted from this volume to keep its size similar to that of other volumes in this series.

CONTENTS

INTRODUCTION

The Foreign Trade of India, particularly with countries overseas, has maintained, with very few vicissitudes, certain common characteristics throughout the long centuries of our history, which are even today observeable. Four of these may be specially mentioned in this Introduction, as they are found prominent even today in the Trade of this country, and deeply affect the national policy in that regard, and, through it, the entire economic structure of the land.

Excess of Exports over Imports, Favourable Trade Balance.

The most outstanding characteristic is the excess of Exports over Imports of Merchandise, leaving a substantial balance of trade in favour of this country. This balance was made good by the import of treasure or precious metals, not classed in the ordinary trading merchandise, or what in modern conditions would be called movement of capital to this country.

Value of Merchandise and Treasure and Gold Separately, From 1899 1939 (In Laks of Rs.)

	MERCHANDISE.			TREASURE				GOLD		
	Imports.	Exports.	Excess of Exports over Imports	Imports.	Exports.	Net Exports (+) Net Imports (-)	Total Mercean-dise & Treasure	Imports.	Expprts.	Net Exports (+) Net Imports (-)
1899 1900 to 1903 04	84,68	124,92	40,24	26,01	11,65	14,36	247,26	13,00	6,82	-6,18
1904 1905 to 1908 09	119,85	165,44	45,59	36,15	9,90	-26,25	331,34	16,85	7,50	-9,35
1909 1910 to 1913 14	151,67	224,23	72.56	47,20	8,32	-38,88	431,42	32,79	4,64	-28,15
1914 1915 to 1918 19	159,25	225,83	66,58	39,07	7,30	-31,77	431,45	12,14	4,26	-7,88
1919 1920 to 1923 24	267,05	306,38	39,33	53,16	13,26	-39,90	639,85	31,24	10.25	-20,99
1924 1925 to 1928 29	251,02	353,51	102,49	53,68	4,14	-49,54	662,35	33,68	18	-33,50
1929 1930 to 1933 34	161,60	198,60	37,46	13,38	42,26	+28,88	415,38	6,54	37,26	+30,72
1933 1934	117,30	151,17	33,87	1,96	65,57	+63,61	336,00	1,10	58,15	+57,05
1934 1935	134,58	155,50	20,92	5,19	63,51	+58,32	358,78	72	53,26	+52,54

Note: Figures for the period 1899-1934 taken from Review of the Trade of India 1937-38.
Figures for the period 1939-1946 taken from Accounts of the Sea Borne Trade 1941-42, 1142-43 and 1945-46.

The subjoined Table is fuller including figures of Government Stores.

Value of Sea borne Trade (In Lakhs of Rupees)

Imports	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
Private											
Merchandise	1,49,77	1,41,70	1,73,79	1,52,33	1,65,29	1,56,97	1,73,30	1,10,45	1,17,77	2,03,59	2,40,49
Govt. Stores	2,24	2,38	3,44	3,18	...	...	...	...	14,97	28,18	47,29
Total											
Merchandise	1,52,01	1,44,08	1,77,23	1,55,51	...	...	...	...	1,32,74	2,31,77	2,87,78
Treasure (Total)	7,84	16,40	4,71	3,24	...	...	...	...	4,29	24,46	8,41
Total Imports	1,59,85	1,60,48	1,81,94	1,58,75	...	...	...	...	1,37,03	2,56,23	2,96,19
Exports											
Private Merchandise											
Indian	1,49,55	1,85,05	1,80,93	1,62,93	...	...	...	...	1,99,88	2,11,05	2,40,39
Foreign	4,70	7,24	8,28	6,42	...	...	...	...	10,96	16,69	23,47
Total Private											
Merchandise	1,54,25	1,92,29	1,89,21	1,69,35	2,13,57	1,98,71	2,52,54	1,94,54	2,10,84	2,27,74	2,63,86
Govt. Stores	29	12	56	62	...	...	...	...	25	2,02	91
Total											
Merchandise	1,54,54	1,92,41	1,89,77	1,69,97	...	...	...	...	2,11,09	2,29,76	2,64,77
Total Treasure	44,90	30,00	19,77	15,18	...	...	...	...	5,72	5,18	7,04
Total Exports	1,99,44	2,22,41	2,09,54	1,85,15	...	...	...	...	2,16,81	2,34,94	2,71,81
Balance	39,59	61,93	27,60	26,40	48,28	41,74	79,24	84,09	79,78	21,29	24,38

Note: Figures for the period 1935-39 are taken from Review of the Trade of India. Figures for the period 1943-46 from Accounts of the Sea Borne Trade of India 1945-46 Figures for the period 1939-43, could be attained only for Private Merchandise from Accounts of Sea Borne Trade Summaries 1941-1942 and 1942.1943

As early at least as the days of the Roman Empire at its height, the Historian Pliny had observed this phenomenon. He has recorded that the Roman Empire regularly imported goods from India in excess of whatever Rome and her dependencies could supply to this country. This used to occasion such an adverse balance of trade against the Empire, that annually India had to be paid in Gold or Silver to the tune of 100 million sesterteces, equivalent, in purchasing power or in the money of our days, to something like £. 5,000,000. This peculiarity of the Foreign Trade of India explains the presence of large quantities of precious metals, both Gold and Silver, in the country, notwithstanding the fact that India does not produce these metals in any quantity worth the name, within her own boundaries, at the time the Expeditions of Mahomed Gazni revealed these hoards.

"Drain" of Gold and Silver.

As a consequence of this, a second characteristic of India's foreign trade arose which brought her steady stream of precious metals every year. Table I attached shows both these characteristics in over 45 years in full working order.

No reliable figures are available of the earlier times. The country, moreover, was not united into a single State under one Central Government from Kashmir to Cape Comorin, from Sind to Assam. Time and again in her history, India has had, no doubt, national unification for a greater proportion of the country; and the national idea has persisted notwithstanding all vicissitudes. Under the Mauryas and the Guptas, under the Pathans and Moguls, the country was united into a single State, and remained so each time for a couple of centuries or more. But there was no continued unbroken unity. The trade, however, continued to show the same characteristic, all through the later centuries after the Roman Empire and the rise of Islam. This is testified to by most of the foreign travellers who visited this country, and

have left records of their impressions regarding the prevailing economic conditions. Its wealth and prosperity are accounted for by this feature of the foreign trade of India, showing that she produced more material commodities than she needed for her own consumption, notwithstanding a very large population from time immemorial. This surplus she exported which was always in excess of what she imported from abroad. The balance was paid in precious metals; which have been from the earliest dawn of civilisation the International Currency for settling all such differences.

In the last hundred years or so, statistics have begun to be more regularly complied, though even now they are far from adequate. Such as they are available, the two peculiarities of the Foreign Trade of India, noticed above, are amply manifest. In the figures given in the table attached, it is evident that, apart from occasional disturbance of the Trade Balance in our favour, due to severe famine, war or a natural calamity on a large scale, throwing out of gear India's mechanism for production, India continues to show, a steady excess of Exports over Imports, and a corresponding flow of precious metals into this country, which have added to the stores of these metals in the land.

Balance of Trade vs. Balance of Accounts.

During the British Period, however, there have been counteracting factors, which have made this Balance of Trade, usually in our favour, shrink in size or volume, due to the exigencies of British Imperial Policy, against which India was helpless. Notwithstanding the substantial Balance in favour of this country on the Trade in merchandise, all through the British period, the precious metals imported into this country have not been in proportion, because of the so-called political "drain" from this country. This drain consisted principally of the "Home Charges" of the Government of India, i.e. part of the Defence Expenditure of the country paid to the British

War Office on account of the British Army stationed in this country; the Political, Civil and Military Pensions, and Allowances of all sorts to British Officials in India; payment for warlike and other stores needed by Government and imported from Britain; Interest on Foreign Obligations of Government; or on private investment; freight charges on the carriage of goods to and fro; Banking commissions, and Insurance,—these were all items against this country, acting as so many "invisible imports".

The volume of this drain has grown steadily from the days of the Company till before the last War, when it amounted to something like Rs. 40 crores a year. So long, however, as the Trade Balance in favour of India was in excess of these "Home Charges", there was no danger to the then existing Indian economy, as our currency was always more in demand in the world Exchange Markets than its demand for any other currency. The Rupee, however, was a silver standard; and with the decline of silver in terms of gold, the rupee began to depreciate steadily notwithstanding a steady demand for it in the World Exchange Market. But in proportion as the Rupee depreciated in Sterling Ratio, the British seller in the Indian market found himself at a disadvantage in competing with India's home made goods. The innate sympathy of the ruling class in India tried to compensate him for this by making the Rupee a token coin, with an artificial value, which was enforced and maintained by a complicated mechanism called the Gold Exchange Standard.

In addition to the Home Charges, there were what we now call Capital Movements to and from the country, which also affected the Balance of final Accounts. Considerable amounts of foreign loans have been raised by India; and the payment of interest thereon, as well as the return of capital, when due, increase the debit side of our account.

The expenditure of Tourists from abroad in this country add to our "invisible" exports; and, conversely, the expenditure of Indian Tourists and Students in foreign countries add to our "invisible" imports. These may, however, over a

long series of years, be taken to cancel each other. The same may be said of the profits of foreign enterprise, or dividends on Foreign (mostly British) capital invested in Indian Industry, and its incidental services, as well as the surplus earnings of foreign professional men or other settlers in this country when remitted to their native country, which act as concealed imports of goods into India. Their exact figure is difficult to estimate. All told, however, they amounted, normally, to less than the excess of Exports of merchandise from India, leaving still a surplus to our credit.

In spite of all this drain, however, the excess was so large that it left a net balance in India's favour in the final account. This could not be settled except by the import of treasure, gold and silver, into this country. So long as Indian Currency was based upon the silver standard, the imports of silver for this purpose were considerable. But the silver standard was scrapped on the closure of the Indian Mint to the free coinage of Rupees in 1893; and the adoption of the Gold Exchange Standard in 1899. Even after this change in the standard from the Silver Rupee to the Pound Sterling,—which was then of a fixed gold value,—the Silver Rupee remained for many years the ordinary popular medium of Exchange within the country.

Variations in Rupee Sterling Ratio

The increasingly artificial character of the Rupee, however, becoming more and more a mere fraction of the Pound Sterling, made its value vary from time to time to suit the needs of British economy: and the realisation that the Gold Standard was more stable and more acceptable in International Exchange than Silver,—a rapidly and progressively depreciating metal,—led to the steadily increasing imports of Gold into the country as against Silver. The Tables appended to this Introduction summarise this feature of the Indian Foreign Trade in the last half century.

Without going too much into the Currency and Exchange aspect of our Overseas Foreign Trade, it may be noted that the vicissitudes of currency history in Britain itself, and the decline of London as the International Clearing House and the only considerable free gold market of the world, have influenced materially the movements of precious metals to and from this country, which are not at all demanded by the natural flow of her Foreign Trade. In fact, there has, on occasion, been a fall in the Exports of merchandise from India, due mainly to the monetary manipulations by the British Government, to such an extent that the traditional peculiarity of the Indian Foreign Trade, of an excess of Exports through the centuries, has been reversed; and actual export of gold and silver has taken place to meet an adverse balance. On these occasions, the reserves built up in England out of the profits of Rupee Coinage, and out of the diversion of part of the gold or silver due to this country or moving into it in the normal course of settlement of the trade balance, have been drawn upon against Sterling Securities; and utilised by Britain for buttressing her own position in International Exchange.

...During the Great Depression of the early thirties of this century, when Britain could no longer maintain the fixed gold value of the Pound Sterling, and had to go off Gold Standard, conditions were so forced upon this country, that there was a heavy and continuous export of gold from India, for years together. These aggregated something like over Rs. 300 crores between 1931 and 1936. Interested Economists and advocates of the British Policy argued that it was in the interest of India to draw out this gold from accumulated hoardes, and so get mobilised as capital resources which were otherwise practically unavailable. But there is no proof whatsoever that the wealth so drained away was invested in any productive enterprise. This plea was therefore, special pleading or specious reasoning, which, however could not conceal the stark fact of the situation, viz: that India's foreign trade, currency and the entire economy had to be arranged

and operated so as to support or promote the interest of Britain at all crucial moments.

With the decline of the political Sovereignty and Domination of Britain in India, such factors affecting the trade of this country are bound to pass away. The normal characteristic of our foreign trade had asserted itself even before the War; while during the War years it grew steadily. Exports again began to show a favourable balance. Lack of shipping, diversion in the industry of our chief sources of supply to war production, and the keeping off of some of the sources of supply altogether because of hostilities between this country and them, Indian Industry received an adventitious stimulus. Foreign imports diminished; and local production increased, leading to a surplus of exports notwithstanding all the handicaps of shipping shortage, and controls. A good deal of the exportable surplus of this country was required for the war needs of the Allies in this very country especially after Japan had entered the War against the Allies. There was consequently a stream of "invisible" exports, which swelled the balance in favour of India all through the period.

Unfortunately, however, this balance could not be paid by Britain in real values. All that this country received was bits of paper, or I. O. U's of the British Government. They now constitute the Sterling Balances, made of the Sterling Securities in the Paper Currency Reserve, against which currency notes were issued almost without limit, and the cash balances of the Reserve Bank of India held abroad. In the last five years from 1942, these balances have accumulated to over £. 1200 million which represent real goods or services sold to Britain in her hour of need; but of which there is now no prospect of any recovery, given the present condition of Britain. At the moment of writing, a declaration of policy has been made by the British Chancellor of the Exechequer, Dr. Dalton, practically stating that these balances due to any country, would have to be substantially scaled down, before any settlement about liquidation could be thought of. This declaration has been endorsed by the Head of the Govern-

ment, the British Prime Minister, and as such may now be taken as official and authoritative. Negotiations may be undertaken as to the ways and means of effecting the scaling down; but any hope of a substantial return to this country is an unmitigated illusion.

With the end of hostilities, and gradual return of the countries of the world to normal conditions, the trade of India would, one might expect, flow through its normal pre-war channels. And when that happens the natural trend of trade would assert itself. New factors, however, have entered into the situation which will materially affect the character of this trade in the years to come. India has resolved to build up her economy on the basis of intensive industrialisation all over the country in accordance with a predetermined Plan. As and when that Plan is carried into effect, it would neccessitate heavy imports of capital goods from countries industrially more advanced, like the U. S. A. To pay for these, India will not have adequate exportable surplus. So long as accumulated, mobilised liquid credit resources were available, in the shape of the Sterling Balances, imports in excess of our exports would not be a matter for any grave anxiety. But in the face of the latest declaration of policy of the British Government, it is more than likely that, if India pursues her determination to go on with her Plan, if she wants to make up the leeway she suffers from in regard to modern industry, if she desires to improve the standard of living amongst her people, she will necessarily have to import more than she can export during such period that the Plan is taking effect, and the leeway is being made up. The political difficulties of the moment may, no doubt, put into the shade this problem for the time being. But whatever the ultimate political organisation of this country,–whether divided or united,–there need be no doubt that such parts of India as go together, and have a common Central Government determined to pursue an energetic policy of intensive industrialisation, they will have to arrange for heavy imports of capital goods to make up the deficit in our

own production of such material.

To pay for these increased imports, our exports may not suffice, partly because of the necessity to make up the starved local demand during the war years due to paucity of supplies and post-war rationing; and partly also because of the need to improve the standard of living of the masses of our people. This would mean a sharp rise in the demand in our own market for our own goods, whether food stuffs or raw materials of Industry, our staple exports. A further factor in this connection is the shortage in food stuffs of home production, which necessitates heavy imports at inflated prices of food grains from abroad, and so adds to the trade balance against India. Perhaps this is only a passing phenomenon, continuing until such time that local production is increased to meet all the local demand. The fact that considerable chunks of territory which were parts of India before 1937, like Burma, and which were the chief source of supply for much of our present foodstuffs deficit, are now no more parts of India. Import from them would be as much foreign Imports affecting the balance against us, as imports from any other country. Further, the population of India has also been growing, according to the latest Census Report, at an alarming rate, which means that the demand is growing quantitatively far in excess of the available supplies. Unless, therefore, we step up sharply our own production, developed and reconditioned to a degree that the local need with all its possibility of expansion is met by local production, the old characteristic of our Foreign Trade may be reversed for years to come.

At this point we may also consider the broad principle of National Policy. In so far as the principle of National Self-Sufficiency, enunciated as the basic aim of planned economy by the National Planning Committee in the years to come; and in so far as all the planned programme of development of indigenous resources for the production of food, raw materials of industry and other consumption goods within the country is followed, a steady excess of Exports over

Imports may not be re-established for years to come.

This will be the situation in regard to the balance of trade in merchandise, considered by itself. It may be swelled still further against us, if the habit, which India has shown throughout the past centuries of hoarding Precious Metals persists. As contra distinguished from this, the Balance of Accounts will not be much affected. The principal item against this country namely the Home Charges will disappear when India becomes an independent Soverign Republic by herself. No tributes will then be payable to Britain or any other country on account of War Office or any other such items. If any pension dues are payable to any British servants of India, whether civil or military, this will be set off by our dues on account of Sterling Balances. For even after substantial scaling down of that account, something will still remain due to us, unless Britain defaults altogether,—to set off against such items.

Worst coming to the worst, India will have to adopt the same brazen attitude as Britain has adopted with regard to our Sterling Balances; and deny any liability on such accounts if Britain demands an impossible scaling down.

Much of the Sterling debt, moreover, of the Govt. Of India has been bought out and repatriated thanks to the excess of India's credits over debits brought about by the war-time factors already mentioned.

There is therefore little or nothing due from us on account of Interest on such obligations, or for capital re-payments.

As regards Freight, Banking commission, and Insurance charges, on account of which heavy payments had to be made to Britain who had a practical monopoly in all these respects, the economic awakening in this country is rapidly building up all these services in this country. With a National Government alive to the needs of the country, we may expect that these aids to the country's foreign commerce will be so accelerated as to diminish the factor against us progressively till it reaches vanishing point,

The same may also be said about the dividends and *other returns of foreign capital investment in Indian industries* or the profits of foreign professional practitioners in this country. Either these sources of drain from India will be acquired by India, or payment on this account will be set off against whatever remains and is paid to us on account of our Sterling Balances from Britain.

Expenses of tourists in this country; and, conversely, the expenditure of Indian students or other citizens going abroad would balance each other. If there is an intensive development of the Tourists traffic, and systematic exploitation of India's natural beauties or attractions, this country may even have a small surplus to its credit from this source, rather than be a debtor on balance.

On the whole, therefore, so far as the final Balance of Accounts is concerned, the situation does not call for any serious anxiety, even if recoveries on account of our Sterling Balances prove negligible.

If, notwithstanding all these considerations any considerable amount still remains due frcm us, say during the years we are building up our National Plan, we may have to have recourse to borrowing abroad so as to accomodate us during the short term of our national economy on a basis of intensive industrialisation and all round developments.

The difficulty of raising credits abroad, so as to pay for some time the adverse balance due to exesss of imports over exports, would change sides from the moment that repayment of capital becomes due. For the payment of interest alone would also add to the stream against this country. We cannot, in deed rely exclusively upon foreign credit for developing our resources, in the manner in which we would like to develop them; as the consideration we may have to offer to our would be foreign creditors for long-term investment in this country may become a serious handicap in our economic system, and bring us no real gain of lasting prosperity.

Imports of Merchandise into British India in Lakhs of Rupees.

Classes of Articles.	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
Imports Class I Food, Drink and Tobacco	13,22	11,15	21,90	24,00	35,29	23,81	27,89	7,62	8,13	18,85	22,25
Class II Raw Materials & Produce and Articles mainly unmanufactured	19,16	19,41	40,90	33,18	36,13	42,10	49,98	51,96	63,94	117,25	116,57
Class III Articles wholly or Mainly manufactured	99,36	92,39	108,10	92,79	91,81	89,51	93,54	49,51	45,12	65,07	97,53
Class IV Living Animals	26	16	30	31	16	6	2	4	--	--	3
Class V Postal Articles	2,42	2,12	2,60	2,08	1,91	1,49	1,70	1,31	1,66	2,40	4,10
Grand Total	1,34,43	1,25,24	1,73,80	1,52,36	1,65,29	1,56,97	1,73,13	1,10,44	1,18,85	2,03,58	2,40,48

Exports of Merchandise from British India in Lakhs of Rupees.

Classes of Articles.	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
Exports including Re-Exports. Class I Food, Drink & Tobacco	37,13	40,23	41,20	39,14	39,65	41,70	58,58	46,97	47,60	49,84	58,43
Class II Raw Materials & Produce and Articles mainly unmanufactured	79,22	102,54	81,40	73,29	85,99	61,86	65,38	42,76	44,64	58,19	84,84
Class III Articles wholly or mainly manufactured	42,17	49,82	55,30	47,61	76,01	81,19	109,26	95,37	104,60	116,27	114,68
Class IV Living Animals	9	8	10	8	8	7	8	15	24	28	28
Class V Postal Articles	1,91	3,45	2,90	2,67	2,19	2,06	4,25	2,38	2,12	3,14	5,62
Grand Total	1,60,53	1,96,12	1,80,90	1,62,79	2,03,92	1,86,88	2,37,55	1,87,63	1,99,20	2,27,72	2,63,85

Figures for the years 1936-1944 have been taken from the Books "Review of Trade"

Figures for the years 1944-1946 have been taken from the Book "Accounts relating to Sea Borne Trade of India"

II Contents of India's Overseas Trade.

Another peculiarity of the foreign trade of India consists in the content of that trade. Until perhaps very recent years, and mainly because of the War, the bulk of our overseas trade consisted of imports of manufactured or semi-manufactured goods. They used to account for nearly 60% of the total imports, though of late the proportion was declining.

On the other hand, the Exports from India consisted, perhaps in a still larger proportion, of raw materials and food stuffs. Under these conditions, those who gave a thought to such matters believed that the manufactured goods imported here could be very easily produced in the country itself, and the raw materials and food stuffs given in exchange could be utilised for developing our own industry to meet our own demand. The Fiscal Policy, however, pursued by the British Government in India was designed to afford an invisible, but no uncertain, preference to British Products in our market. As British Industry was very much advanced long before the time India became conscious of her own potentiality in that direction, it had no fears of effective competition from local production. This characteristic is evident from the Table II attached.

As Indian consciousness grew in the matter, it demanded a National Fiscal Policy shaped as to protect, safeguard and encourage local industry sufficient at least to meet the local demand, or to work up the locally produced raw materials to the finished stage ready for consumption. Government's policy was, however, for a long time such that not only there was no protection or fostering of indigenous industry; but even the slight, invisible advantage of distance adding C. I. F. charges on British Goods coming into India, was deliberately counterbalanced by what were named "Countervailing Excise Duties", on the most important of the Indian Competitor of Indian Goods, namely, Cotton Textiles. Not until 1926 were these countervailing excise duties removed, and Indian

Industry was left untrammelled to secure what it could of its own market. Even this slight concession was forced, because the competition of Japan had by that time asserted itself to such an extent that the Indian Market was getting lost even to Britain, and not gained by India either. It was, therefore, to safeguard their own long-term interests that, in the final analysis, they afforded some protection to the Indian Cotton Textile Industry.

The same vicissitudes occurred in other industries as well, though not perhaps to the same extent. The Indian Sugar, Match, Cement, Iron and Steel and other such basic Industries have been built up, almost from foundation-stone upwards, only by the aid of some protective tariff. Imports from abroad of these commodities have, in consequence, stopped almost altogether. Many other industries, no less important in the aggregate of our national economy, still await such aid and fostering care before India would be able to work up all her own resources of raw materials, to meet her own demand for the finished goods out of these raw materials. Without some kind of protective or fostering fiscal policy, giving tariff protection to indigenous industry, direct State aid, indirect support in kind, counsel, and guidance, Industry of the modern type will have no future in India, notwithstanding the richness of her labour supply and variety of indigenous resources.

This was first brought home to the alien Government of India in the first World War of 1914-18, when the inability of this country to equip her own forces with modern armament and all accessories of war, showed the disadvantage to which India was exposed in the matter of supplies, armament, or equipment formerly obtained from Britain, but which could not be procured while shipping was scarce and trade routes blocked. Not entirely was it, therefore, in India's interests only; but rather in the interests of Imperial Domination, that Britain reluctantly agreed, somewhere about 1920, to re-shape India's Fiscal Policy, and afford "Discriminating Protection" to such Indian Industries as held out good promise of economic

development within a reasonable period as certified by a specific Tariff Board, after full enquiry.

It would swell the size of this Introduction too much if we were to go into details of the new Fiscal Policy, and its extension or application that followed in the years after 1923, when the recommendations of the Fiscal Commission were generally accepted, and gradually implemented. Suffice it to say that the Fiscal Policy of India just before the War of 1939-1945 was a mixture of Protective cum Productive duties. And this apart from the experiment made for years to form India a part of the Imperial Preference for the British Commonwealth of nations. It was designed, primarily, to support the British Economic position which had received rude shock during the War of 1914-18. It was only incidentally that the system of Imperial Preference could help Members of the British Commonwealth to secure some advantage for themselves, and that, too, by as much trade within the Commonwealth as possible. Even there, however, while the self-governing Dominions, with status equal to that of the Senior Partner and original founder, Britain, were able to secure and safeguard their interests to the full, other Members of the Commonwealth like India, who were dependent and lacking in political power of sovereign authority, had only to follow the apron strings of Britain, and support Britain's fiscal, financial or economic policies, no matter what the repercussions of those policies were upon themselves individually.

The content of India's foreign Sea-borne Trade has been affected as much by war and the consequent economic dislocation in countries affected by hostilities; but also by the policy of internal industrialisation, which received an unexpected impetus by the War. Viewed over a long period, this change is noticeable in Imports as well as Exports.* Imports of finished goods accounted for 84% of the total value of Imports into Burma and India, in 1920-21; while in 1936-7, on the eve of Burma's separation from India, the proportion was reduced to 75%. In the same period, the fall in value

was much greater, from Rs. 274 crores to Rs. 92 crores. Imports of industrial raw materials amounted to 5% in 1920-21; but they rose to 16% in 1936-37. In value, while the aggregate Import fell by two-thirds, imports of raw materials actually rose by 10%. During the war years this tendency was intensified, till in 1944-45 the imports in class III fell to 40% of the total, while Industrial raw materials class II rose to 48%. In the last two years, the shortage of food supply has added to the imports substantially in Class I. But this, let us hope, is a passing phenomenon, due to the dislocation of national economy by the War. In a predominantly agricultural country, like India, importing food stuffs definitely denotes something fundamentally wrong, which will, without doubt, be put right when the country recovers from its present war wastage and dislocation.

On the Exports side, the tendency was not quite so noticeable for Industrial raw materials to decline, and manufactured goods to rise. In fact, between 1920-21, and 1936-37, exports of raw materials actually increased from 45% of the total exports to 53%. This was partly due to the heavy fall in the value of India's exports, and partly to increased production of raw materials in India. Exports of manufactured goods also fell, in the same period, from, 36% to 26% again due mainly to the steep fall in the value of Indian cotton goods, and also to the greater consumption of Indian-made goods in the country itself, leaving a much smaller balance for export. During the War years, the position has been reversed. Exports of manufactures have risen to 47%, and those of raw materials have fallen to 28%. In 1944-45, out of the total Exports of Rs. 240.39 crores, Class II, raw materials of Industry accounted for Rs. 69.71 crores or about 29% while manufactured goods accounted for Rs. 110.64 crores or about 46.7%

The importance of Fiscal Policy or Tariff protection to indigenous industry, would be very much diminished if and when a comprehensive National Plan, affecting all sectors of the economic development of the country, is prepared and

put into execution. A large part of the Plan would, of course, be under the direct ownership and conduct by the State or its delegate. No question of indirect protection, as by discriminating tariffs, would arise in that case, where internal competition would also be absent. For the rest, the Plan would inevitably necessitate close control, supervision, and regulation of all enterprises which form an integral part of the National Plan. No enterprise could or would be left entirely to shift for itself under private ownership, free from any direction, control or regulation from the State, as it might conceivably throw out of gear the entire Plan.

Premising, therefore, control, supervision, and regulation by the State, or by some Public Authority on its behalf, in cases where the State does not own and conduct these enterprises directly, the measure of protection, encouragement or assistance deemed necessary or appropriate for each industry would be included and given effect to in the general policy of Planned Economy, and all that such Planning implies.

Tariff protection, particularly, may, under these circumstances, reach the level even of absolute prohibition in the case of any commodities which are utterly uneconomic to make within the country,—except by keeping out foreign competition altogether. In such cases it would be best for the State to conduct these enterprises itself, and not make its policy of effective protection to local industry a handle for increasing private profit. In a regime of planned economy all over the world, the division of work, as between the several regions or countries of the world, could be founded on such natural lines, that all the elaborate paraphernalia of competitive international trade would become obsolete and unnecessary. No country would need artificial protection to its industry, because the right would be recognised of every country to develop to the maximum its own resources unhindered by any body else. But while this regime is not universal, and planning is confined to only some segments of a country's economy, such precautions or safeguards are unavoidable. In

other cases, where absolutely prohibitive regulation is unnecessary, the State may so design its economic or financial measures as to provide just the necessary degree of fostering care and safeguard that each given industry may need for a while in order to make itself good.

Fiscal Policy is directly connected with the Foreign Trade of a country. It follows, therefore, that trade itself will have to be very closely watched, regulated and controlled, from the standpoint as much of carrying out the Plan as originally designed and intended, as also for minimising disturbances of the country's Foreign Exchanges and consequently of the internal price-level. The war-time system of prior license, or price control and production limitation, as well as directions where trade is to flow would, accordingly, have to be continued for a number of years, if it ever is to be abandoned at all.

It is unnecessary to add that, during the War, these features of the Foreign Trade of India have been substantially affected. India has begun to manufacture a good deal of what she used, before the War, to import from Europe, America or Japan. Under the stimulus of wartime demand, new industries were built up and existing ones expanded, so that all available raw materials were worked up to the stage of finished goods within the country. On the other hand, no great export was possible in the case of many commodities for lack of shipping space, and also because of a very much expanded demand within the country itself. Whether these conditions will continue on the return of normal conditions is difficult to say at present. But an absolute return to pre-war conditions, in the sense of unquestioned superiority in productive efficiency in many of our pre-war sources of supplies of industrial goods, and consequent temptation to import from them is extremely unlikely. Even if those industries, which were started during and because of the war, suffer a degree of set-back when the war-time demand declines and disappears, the chances of those very commodities being needed for normal civil requirements are not too remote.

The Government of India have also recognised the need for protecting and safeguarding these war-babies, if only to make good their pledges in that behalf given during the War—against unfair post-war competition so as to give them a more than sporting chance of survival. A special Tariff Board has been set up for the purpose since 1946; and practically all the recommendations of that Body have been accepted and acted upon by Government.

Other classes of the Imports into and Exports from India are relatively unimportant. Notwithstanding intense planning of a comprehensive kind, and given a policy of National Self-sufficiency, it would by no means follow that the country will have no Foreign Trade whatsoever. Planned Economy does not necessarily mean "Closed" Economy. The only difference between the two species is that, if and in so far as the Plan is comprehensive and put into execution simultaneously, India may produce and work up much more of her available and potential resourses than was the case in the unplanned age of *laissez-faire* and individualism. But for working up this very raw material, she would need capital goods, e. g. Machinery and Machine Tools, Plant and Equipment, which would take the place of manufactured goods of the pre-war years. And if the raw materials etc. which used to be exported before the War no longer play the same role in the post war Export Schedule, it is very likely that the surplus of manufactured goods exported from this country to our neighbours across the seas and the mountains or deserts on the East as well as on the West, on the North as well as the South, may take that place. The content as well as the direction, therefore, may change: but trade as such cannot disappear under planned economy, as is more than testified by Soviet Economy.

IV Direction of Trade.

This brings us to the next peculiarity of the Foreign

Trade of India in all the years of the British regime in India. As observed already, the bulk of India's Foreign Trade before the War used to be with the United Kingdom and other Memmers of the British Commonwealth of Nations, both on the Import and on the Export side, encouraged in part at least, by the oxygen pumping of Imperial Preference. As a rule, however, those favoured customers of ours took less of our Exports, collectively speaking, than they sold to us their wares. On the other hand, other countries in Europe, America or Asia, took more of our exports than we imported from them, even though they produced the same type of goods as the United Kingdom or other members of the British Commonwealth. On the whole, however, the balance with all our customers remained steadily in our favour. *The sub-joined Table III gives the direction, value and percentage* of the Foreign Overseas Trade of India with the United Kingdom, Members of the British Commonwealth of Nations, Europe, America, and Asia.

TABLE III

Value and Percentage Share of Trade in Merchandise only with British Empire

(in Lakhs of Rupees)

Countries.		1919-20 to 23-24 average			1935 - 36			1936 - 37		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
British Empire.										
United Kingdom	Value	143,43	73,04	219,47	52,19	51,80	1,03,99	48,07	65,04	113,11
	Percentage	57.6	24.2	39.5	38.8	31.5	34.8	38.4	32.1	34.5
Burma	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
Ceylon	Value	1,71	12,32	14,03	1,49	7,46	8,95	1,76	7,62	9,38
	Percentage	0.7	4.8	2.5	1.1	4.5	3.0	1.4	3.8	2.9
Australia	Value	3,19	4,99	8,18	1,19	2,87	4,06	1,12	3,23	4,35
	Percentage	1.3	1.7	1.5	0.9	1.7	1.4	0.9	1.6	1.3
Canada	Value	69	1,83	2,52	94	1,72	2,66	72	2,18	2,90
	Percentage	0.3	0.6	.45	0.7	1.06	0.9	0.6	1.07	.9
Kenya, Zanzibar and Pemba	Value	1,99	2,14	4,13	3,50	69	4,19	3,47	83	4,30
	Percentage	0.8	0.7	.74	2.6	.42	1.4	2.7	0.4	1.3
Total British Empire	Value	165,54	125,12	290,66	65,51	76,22	1,41,73	61,67	93,74	155,41
	Percentage	65.2	41.4	52.3	48.7	46.4	47.5	49.2	46.3	47.4

Value and Percentage Share of Trade in Merchandise only with British Empire (*Continued*)

(in Lakhs of Rupees)

Countries,		1937 - 38			1938 - 39			1939 - 40		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
British Empire.										
United Kingdom	Value	51,96	64,43	116,39	46,49	58,25	104,74	41,62	74,87	116,49
	Percentage	29.9	34.0	32.1	30.5	34.3	32.5	25.2	35.1	30.8
Burma	Value	25,96	11,29	37,25	24,35	11,10	35,45	31,38	13,47	44,85
	Percentage	14.9	6.0	10.3	16.0	6.6	11.0	19.0	6.3	11.8
Ceylon	Value	1,66	5,60	7,26	1,18	5,36	6,54	1,46	6,74	8,20
	Percentage	1.0	3.0	2.0	0.8	3.2	2.0	0.9	3.1	2.2
Australia	Value	1,66	3,14	4,80	2,41	2,98	5,39	2,39	5,50	7,89
	Percentage	1.0	1.7	1.3	1.6	1.8	1.7	1.4	2.6	2.1
Canada	Value	1,00	2,32	3,32	91	2,14	3,05	1,37	4,12	5,49
	Percentage	0.58	1.2	0.9	0.6	1.2	0.9	.8	1.9	1.4
Kenya, Zanzibar and Pemba	Value	4,47	87	5,34	5,13	69	5,82	3,45	93	4,38
	Percentage	2.5	.46	1.5	3.3	.4	1.8	2.1	0.4	1.1
Total British Empire	Value.	95,22	99,12	194,34	88,56	90,28	178,84	93,11	119,05	212,16
	Percentage	54.8	52.4	53.5	58.1	53.6	55.7	56.3	55.9	56.1

Value and Percentage Share of Trade in Merchandise only with British Empire (*Continued*)

(in Lakhs of Rupees)

Countries.		1940 - 41			1941 - 42			1942 - 43		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
British Empire.										
United Kingdom	Value	35,94	65,32	101,16	36,62	76,97	113,59	29,55	58,16	87,71
	Percentage	22.9	32,9	28.5	21.1	30.4	26.7	26.8	29.7	28.6
Burma	Value	28,62	18,07	46,69	29,39	12,91	42,30	1,44	3	1,47
	Percentage	18,2	9.1	13.1	17.0	5.1	9.9	1.3	-	0.5
Ceylon	Value	2,19	7,70	9,89	3,41	10,23	13,64	4,37	14,81	19,18
	Percentage	1.4	3.9	3.9	2.0	4.0	3.2	4.0	7.6	6.2
Australia	Value	2,48	7,35	9,83	4,96	12,45	17,41	3,22	16,19	19,41
	Percentage	1.6	3.7	2.8	2.9	4.9	4.1	2.9	8.3	6.3
Canada	Value	2,97	3,17	6,14	6,73	6,54	13,27	5,52	3,91	9,43
	Percentage	1.9	1.6	1.7	3.8	2.5	3.1	5.0	2.0	3.1
Kenya, Zanzibar and Pemba	Value	3,66	2,27	5,93	7,23	3,94	11,27	4,79	3,92	8,71
	Percentage	2.3	1.1	1.7	4.1	4.1	1.5	2.6	2.0	2.8
Total British Empire	Value	89,73	120,48	210,21	105,57	153,80	259,37	61,24	128,17	189,41
	Percentage	57.3	60.7	59.1	61.0	60.8	60,9	55.4	65.7	62.0

Value and Percentage Share of Trade in Merchandise only with British Empire (*Continued*)
(in Lakhs of Rupees)

Countries.		1943 - 44			1944 - 45			1945 - 46		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
British Empire.										
United Kingdom	Value	29,56	61,42	90,08	40,29	61,77	102,06	61,07	67,91	128,98
	Percentage	25.1	29.1	27.7	19.7	29.2	24.6	25.4	28.2	26.8
Burma	Value	3	-	3	13	-	13	42	12	54
	Percentage	-	-	-	-	-	-	.1	-	.1
Ceylon	Value	3,50	14,55	18,05	13,64	19,17	22,81	3,72	16,74	20,46
	Percentage	3.0	6.9	5.5	1.8	9.1	5.5	1.5	6.9	4.2
Australia	Value	4,77	13,39	18,11	10,27	14,68	24,95	7,35	10,55	17,90
	Percentage	4.0	6.3	5.5	5.0	6.9	6.01	3.05	4.4	3.7
Canada	Value	2,52	4,89	7,41	4,28	6,90	11,18	5,59	6,69	12,28
	Percentage	2.1	2.3	2.2	2.1	3.2	2.7	2.3	2.8	2.5
Kenya, Zanzibar and Pemba	Value	3,36	4,89	8,25	8,49	3,14	11,63	10,42	8,29	18,71
	Percentage	2.8	2.3	2.5	4.1	1.49	2.8	4.3	3.4	3.9
Total British Empire	Value	56,74	130,60	187,34	78,64	137,99	216,63	101,83	133,60	235,43
	Percentage	48.2	61.9	57.0	38.6	65.3	52.2	42.3	55.6	48.9

TABLE III (*Continued*)

Value and Percentage Share of Trade in Merchandise only with Foreign Countries

(in Lakhs of Rupees)

Countries.		1919-20 to 23-24 average			1935 - 36			1936 - 37		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
Foreign Countries										
United States of America	Value	21,64	36,26	57,90	8,94	16,55	25,49	8,16	19,16	27,32
	Percentage	8.5	12.0	10.4	6.7	10.1	8.5	6.5	9.5	8.3
Japan	Value	17,48	40,31	57,79	21,84	22,07	43,91	21,27	30,33	51,60
	Percentage	6.9	13.3	10.4	16.3	13.4	14.7	17.0	15.0	15.7
France	Value	2,37	14,37	16,74	1,29	7,20	8,49	1,14	8,08	9,22
	Percentage	0.9	4.8	3.0	1.0	4.4	2.8	0.9	4.0	2.8
Italy	Value	2,47	9,63	12,10	2,00	3,54	5,54	1,21	4,87	6,07
	Percentage	1.0	3.2	2.2	1.5	2.2	1.9	1.0	2.4	1.9
Irân	Value	-	-	-	2,35	57	2,92	2,18	1,46	3,64
	Percentage	-	-	-	1.7	0.3	1.0	1.7	0.7	1.1
China (excluding Hongkong & Macao)	Value	3,14	10,98	14,12	1,85	1,88	3,73	1,39	1,36	2,65
	Percentage	1.2	3.6	2.5	1.4	1.1	1.2	1.1	0.6	0.8
Turkey (Asiatic)	Value	1	11	12	1	8	9	7	15	22
	Percentage	-	-	-	-	-	-	-	-	-

Value and Percentage Share of Trade in Merchandise only with Foreign Countries (Continued)

(in Lakhs of Rupees)

Countries,		1937 - 38			1938 - 39			1939 - 40		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
Foreign Countries										
United States of America	Value	12,88	18,73	31,61	9,78	14,29	24,07	14,88	27,18	42,06
	Percentage	7.4	9.9	8.7	6.4	8.4	7.5	9.0	12.7	11.1
Japan	Value	22,19	18,51	40,70	15,41	14,82	30,23	19,29	14,16	33,45
	Percentage	12.8	9.8	11.2	10.1	8.8	9.4	11.7	6.6	8.8
France	Value	1,57	5,29	6,86	1,40	6,23	7,63	1,44	8,14	9,58
	Percentage	0.9	2.8	1.9	0.9	3.7	2.4	0.9	3.7	2.5
Italy	Value	2,57	5,45	8,02	2,69	2,64	5,33	2,05	2,08	4,13
	Percentage	1.5	2.9	2.2	1.8	1.5	1.7	1.2	1.0	1.1
Iran	Value	2,74	79	3,53	3,49	85	4,34	3,10	95	4,05
	Percentage	1.6	0.4	1.0	2.3	0.5	1.3	1.9	0.4	1.1
China (excluding Hongkong & Macao)	Value	98	1,99	2,97	1,73	2,50	4,23	2,61	8,51	11,12
	Percentage	.06	1.1	0.8	1.1	1.5	1.3	1.6	4.0	2.9
Turkey (Asiatic)	Value	8	31	39	1	21	22	1	11	12
	Percentage	-	0.1	-	-	.1	-	-	-	-

Value and Percentage Share of Trade in Merchandise only with Foreign Countries (*Continued*)

(in Lakhs of Rupees)

Countries,		1940 - 41			1941 - 42			1942 - 43		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
Foreign Countries										
United States of America	Value	27,01	31,94	57,95	34,62	54,17	88,79	19,13	29,84	48,97
	Percentage	17.2	16.1	16.6	20.0	21.4	20.8	17.3	15.3	16.0
Japan	Value	21,54	9,19	30,73	11,78	4,77	16,55	4	-	4
	Percentage	13.7	4.6	8.6	6.8	1.9	3.9	-	-	-
France	Value	61	4,56	5,17	-	-	-	-	-	-
	Percentage	0.4	2.3	1.5	-	-	-	-	-	-
Italy	Value	54	38	92	-	-	-	-	-	-
	Percentage	0.3	0.2	0.3	-	-	-	-	-	-
Iran	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
China (excluding Hongkong & Macao)	Value	2,85	10.10	12,95	2,82	2,37	5,19	7	14	21
	Percentage	1.8	5.1	3.6	1.6	0.9	1.2	-	-	0.1
Turkey (Asiatic)	Value	-	5	5	-	28	28	-	30	30
	Percentage	-	-	-	-	0.1	-	-	0.17	0.1

Value and Percentage Share of Trade in Merchandise only with Foreign Countries (*Continued*)

(in Lakhs of Rupees)

Countries.		1943 - 44			1944 - 45			1945 - 46		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
Foreign Countries										
United States of America	Value	18.57	49,06	67,63	52,43	44,69	97,12	67,40	61,62	129,02
	Percentage	15.8	23.2	20.5	25.7	21.1	23.4	28.02	25.6	26.0
Japan	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
France	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
Italy	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
Iran	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
China (excluding Hongkong & Macao)	Value	7	12	19	1	3	4	3	2,19	2,22
	Percentage	-	0.1	0.1	-	-	-	-	.9	.46
Turkey (Asiytic)	Value	-	50	50	-	28	28	-	31	31
	Percentage	-	0.2	0.1	-	.1	-	-	-	-

Value and Percentage Share of Trade in Merchandise only with Foreign Countries (*Continued*)

(in Lakhs of Rupees)

Countries.		1919-20 to 23-24 average			1935 - 36			1936 - 37		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
Foreign Countries										
Java	Value	17,18	3,18	20,36	1,74	47	2,21	44	79	1,23
	Percentage	6.8	1.0	3.7	1.3	0.3	0.7	0.3	0.4	0.4
Argentine (Republic)	Value	-	4,21	4,21	1	2,07	2,08	1	3,08	3,09
	Percentage	-	1.3	0.8	-	1.2	0.7	-	1.5	0.9
Netherlands	Value	2,18	3,16	5,34	1,34	3,73	5,07	1,33	4,46	5,79
	Percentage	0.9	1.5	0.9	1.0	2.3	1.7	1.1	2.2	1.8
Belgium	Value	4,64	11,25	15,89	2,44	5,54	7,98	2,81	7,39	10,20
	Percentage	1.8	3.7	2.9	1.8	3.4	2.7	2.2	3.6	3.1
Germany	Value	7,16	14,86	22,02	12,35	9,59	21,94	12,13	9,69	21,83
	Percentage	2.8	4.9	4.0	9.2	5.8	7.3	9.7	4.7	6.6
Egypt	Value	(d) 52	(d) 2,98	(d) 3,50	1,53	1,28	2,81	1,94	1,39	3,33
	Percentage	-	-	-	1.1	.8	.9	1.5	.48	1.0
Total Foreign Countries	Value	88,51	176,86	265,37	68,87	88,06	156,93	63,57	108,63	172,20
	Percentage	34.8	58.6	47.7	51.3	53.6	52.5	50.8	53.7	52.6
Grand Total	Value	254,05	301,98	556,03	134,38	164,28	298,66	125,24	202,37	327,61
	Percentage	100	100	100	100	100	100	100	100	100

Value and Percentage Share of Trade in Merchandise only with Foreign Countries (*Continued*)

(in Lakhs of Rupees)

Countries.		1937 - 38			1938 - 39			1939 - 40		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
Foreign Countries										
Java	Value	37	1,02	1,39	51	75	1,26	3,37	1,44	4,81
	Percentage	0.2	0,5	0.4	0.3	0.4	0.4	2.0	0.7	1.3
Argentine (Republic)	Value	3	2,71	2,74	1	2,88	2,89	1	3,55	3,56
	Percentage	-	1.4	0.75	-	1.7	0.9	-	1,6	0.9
Netherlands	Value	1,48	3,91	5,39	1,43	4,43	5,86	1,45	2,56	4,01
	Percentage	0.9	2.1	1.5	0.9	2.2	1.6	0.9	1.2	1.1
Belgium	Value	3,27	6,00	9,27	2,92	4,48	7,40	2,55	3,21	5,76
	Percentage	1.9	3.2	2.6	1.9	2.5	2.2	1.5	1.5	1.5
Germany	Value	15,31	10,53	25,84	12,93	8,70	21,63	6,69	2,98	9,67
	Percentage	8.8	5.6	7.1	8.5	5.0	6.6	4.0	1.4	2.5
Egypt	Value	2,98	1,48	4,46	2,19	1,26	3,45	2,84	1,78	4,62
	Percentage	1.7	0.8	1.2	1.4	0.74	1.0	1.7	0.8	1.2
Total Foreign Countries	Value	78,57	90,09	168,66	63,77	78,93	142,70	72,16	94,03	166,19
	Percentage	45.2	47.6	46.5	41.9	46.4	44.3	43.7	44.1	43.9
Grand Total	Value	173,79	189,21	362,99	152,33	169,21	321,54	165,27	213,08	378,35
	Percentage	100	100	100	100	100	100	100	100	100

Value and Percentage Share of Trade in Merchandise only with Foreign Countries(*Continued*)

(in Lakhs of Rupees)

Countries.		1940 - 41			1941 - 42			1942 - 43		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
Foreign Countries										
Java	Value	74	1,07	1.81	1,95	4,87	6,82	13	-	13
	Percentage	0.5	0,5	0.5	1.1	1.9	1.6	0.1	-	-
Argentine (Republic)	Value	2	4,02	4,04	6	5,80	5,86	22	2,64	2,86
	Percentage	-	2.02	1.1	-	2.2	1.3	.1	1,3	.9
Netherlands	Value	49	33	82	-	-	-	-	-	-
	Percentage	0.3	0.2	0.2	-	-	-	-	-	-
Belgium	Value	94	32	1,26	-	-	-	-	-	-
	Percentage	0.6	0.2	0.4	-	-	-	-	-	-
Germany	Value	10	-	10	-	-	-	-	-	-
	Percentage	0.1	-	-	-	-	-	-	-	-
Egypt	Value	2.75	3,26	6,01	4,69	6,53	11,22	8,12	3,89	11,92
	Percentage	1.7	1.6	1.4	2.7	2.1	2.6	2.3	2.0	3.8
Total Foreign Countries	Value	67,06	78,19	145,25	67,57	99,09	166,66	49,20	66,80	116,00
	Percentage	42.7	39.3	40.9	39.0	39.2	39.1	44.6	34.3	38.0
Grand Total	Value	156,99	198,67	355,46	173,14	252,89	426,03	110,44	194,97	305,41
	Percentage	100	100	100	100	100	100	100	100	100

Value and Percentage Share of Trade in Merchandise only with Foreign Countries (*Continued*)

(in Lakhs of Rupees)

Countries.		1943 - 44			1944 - 45			1945 - 46		
		Import	Export	Total	Import	Export	Total	Import	Export	Total
Foreign Countries										
Java	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
Argentine (Republic)	Value	14	4,07	4,21	-	-	-	-	-	-
	Percentage	.1	1.9	1.2	-	-	-	-	-	-
Netherlands	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
Belgium	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
Germany	Value	-	-	-	-	-	-	-	-	-
	Percentage	-	-	-	-	-	-	-	-	-
Egypt	Value	11,27	3,11	14.38	17,38	3,36	20,74	15,10	2,82	17,92
	Percentage	9.5	1.4	4.3	8.5	1.5	5.0	6.3	0.1	3.7
Total Foreign Countries	Value	61,03	80,24	141,27	124,95	73,06	198,01	138,66	106,79	245,45
	Percentage	51.8	38.1	43.0	61.4	34.7	47.8	57.7	44.4	51.1
Grand Total	Value	117,77	210,84	328,61	203,59	211,05	414,64	240,49	240,39	480,88
	Percentage	100	100	100	100	100	100	100	100	100

(1)	Figures for the years	1919-20 to 1923-24	are taken from	"Review of the Trade of India"	in 1940-41
(2)	do.	1935-36	do.	do.	1935-36
(3)	do.	1936-37	do.	do.	1936-37
(4)	do.	1937-38, 1938-39, 1939-40	do.	do.	1939-40
(5)	do.	1940-41	do.	do.	1940-41
(6)	do.	1941-42, 1942-43, 1943-44	do.	do.	1943-44
(7)	do.	1944-45, 1945-46	do.	"Accounts of the Sea-borne Trade"	1945-46

In this aspect also it is more than likely that the post-war years will bring many and radical changes. As the Table given above shows, Trade with the United Kingdom and other Members of the British Commonwealth of Nations, taken collectively, is on a steady decline both on the import and export side. The explanation on the Import side,—apart from the War,—is the growth of India's own industry, which makes her supply from her own production much of what she used to import from the United Kingdom or her Dominions. On the Export side the availability of more profitable markets in other countries must account for the corresponding phenomenon.

On the import side, moreover, the relative efficiency of British production compares unfavourably with that of corresponding material from the United States. If India desires to build up her new industries on the basis of the best available efficiency of machinery, machine tools, plant and equipment, she will necessarily have to go to the United States in preference to any other source of supply. Even Soviet Russia, which has worked miracles in economic development, cannot supply our wants.

It may be that financial considerations, like those due to the peculiar method adopted in the settlement of the Sterling Balances, or the availability of borrowed funds in countries like the United States, may divert our trade to channels other than those which the normal considerations of competitive costs would have brought about. But allowing for all this and for other factors, like a deliberate design to influence the direction of India's Foreign Trade under the Plan, the pre-war direction of Trade in particular lines is unlikely to continue unaffected.

The chances of India developing her Trade with her neighbours in Asia and Africa are much greater than have been visualised while the British supremacy and Imperialistic exploitation of India was unchallenged. These countries of Asia and Africa on the opposite shores of the seas that surround us are, comparatively speaking, less developed in

India is the extremely small proportion of its Land Trade. The Table given elsewhere shows that by far the larger proportion of the total Foreign Trade of the country has in the last century been with countries across the seas. But that does not mean that our trade with our landward neighbours is non-existant, or that its potentialities are insignificant. With the advent of Planned Development that trade is likely to prove even more promising than that with neighbours across the seas; and, as such, it may need to be developed intensively by specific devices and deliberate measures which have hitherto been overlooked or neglected. With the disappearance of British authority in this country, and European domination from Asia, with the end of the Colonial System, and growth of communications, our important neighbours, including China as well as Russia, may look to this country, as we would look to them, for more intensive expansion in matters of trade than has been the case in the centuries of European domination of Asia. The present barriers against this trade are in the shape of mountains or deserts, which can be easily crossed. Other difficulties of Tarriff Barriers and Exchange complication are man-made, which can be ended also by man. It is only a matter of improving communication and transport facilities, and that will not take much to accomplish, especially if, as we assume, the real advantage to all parties concerned is perceived and attended to.

VI Internal Trade of India.

In marked contrast with the Foreign Trade,—whether Sea-borne or landward,—is the Internal Trade of this country, as between its several Provinces and States. No statistics whatsoever are available since 1931 to gauge the volume and character of this most important section of our Trade. But from every indication we can gather, it is evident that our internal trade must be far more important, in quantity as well as in value, than the entire amount of the Foreign

Trade.

This is, of course. a common feature all over the world. The larger a country the larger is its Internal Trade, in proportion to its Foreign Trade. In the United States, for example, it has been calculated that the Inland Trade is ten times as much as the Foreign Trade of that vast country, notwithstanding its Trade connections and credit links all over the world. With India, still hyde-bound in archaic customs, the Local Trade must be still more considerable. The total wealth of exchangeable material goods produced in the country has been estimated, in terms of the 1900-1921 price-level, at some 2,000 crores. This, in terms of the present price-level, and allowing for increase in industrial production, which was very low twentyfive years ago, may now be taken to be Rs. 4,000—Rs. 5,000 crores. If this volume is exchanged only once, as between the original producer and the ultimate consumer, without the intervention of any middleman, the, value of this Trade would amount to Rs. 5,000 crores. Against this, the tolal value of our Foreign Trade,—Imports and Exports put together,—does not exceed Rs. 500 crores at present prices.

The act of internal exchange is much more frequent, and multifold than that in regard to Foreign Imports or Exports. There are not one but several intermediaries between the primary producer and the final consumer. There are, moreover, several processes between the first production of a commodity and the stage when it is ready for consumption; and that consequently several acts of exchange must intervene and increase the total volume ot this Trade. The total wealth of Rs. 5,000 crores exchanged twice only would mean a trade turnover of Rs. 10,000 crores. This is proved also by the statistics of Clearing Houses, though they affect hardly a fraction of the aggregate internal commerce of India.

Notwithstanding this volume and importance of the Internal Trade of India, little attention is paid to its development, by removing such of its handicaps or obstacles as needlessly come in the way of a full and proper development

of this, our most important and considerable Exchange. For countries depending for their very existence, so to say, upon their foreign Trade, as Britain does, the domestic Exchange is relatively unimportant, and so may be left to shift for itself. But India is a land of such vast dimensions, great population, and a rich variety of production within her own frontiers, that she can well afford to work on an ideal of National Self-Sufficiency, such as has been accepted as the governing principle by the National Planning Committee. There is nothing under the sun which India may need, and which she cannot, at pinch, produce herself from her own resources of man and materials. As, however, our entire national economy was regulated by the interests and requirements of Britain rather than our own immediate needs, it was the Foreign Trade which received all the attention of Government, dictated their Fiscal Policy, prescribed their Railway rates and shipping freights, and governed their policy in regard to Currency and Exchange. The Inland Trade on the other hand was starved for want of adequate and appropriate financing, suitable Transport facilities, and proper designing and adjusting of the financial policy of Government.

True, all internal barriers to the Trade, such as the Inland Customs Duties which acted as a sort of Transit Tax, were attempted to be eliminated, in proportion as the country became unified under one strong central authority. Not all such internal barriers were, indeed, abolished, as some of the Indian States continued to levy their own Customs Duties on the goods coming within their territorial jurisdiction. But even in that case, those Customs Duties were dictated solely by regard to the financial needs of the particular State, and had no bearing in the matter of protection to local industry, or other facets of the Fiscal policy. On the wider issues of policy, the States followed the same line as the British Government of India. And the latter were obliged, by the very nature of their being, to subordinate Indian needs and interests to the requirements of British Economic Imperialism.

The same holds good also of such other aids and adjuncts to flourishing trade, as the medium of Exchange and commercial credit. The medium of exchange was unified by the end of the Nineteenth Century, and thereafter worked in close co-operation and faithful subordination to British needs right upto April 1, 1947. Inland transport rates, were designed to aid foreign commerce from Inland centres to ports and vice versa, as much as possible, also at the expense of local industry. Banking and currency and credit instruments and institutions likewise operated with scarcely veiled indifference to the Inland Trade. In every way, thus, Internal Trade was neglected, uncoordinated,—a prey to the greed of the local shop-keeper, and the ignorance of the primary producer.

With the introduction, however, of a comprehensive Plan of all round National Development; with the determination to develop the local resources of each region within the country to the utmost of its capacity, and distribute the benefits of planned production as can be best possibly arranged, the volume as well as value of internal Trade must grow steadily. As the Plan progresses, the standard of living, the scale of wants, of the people all over the land will also increase. The result would inevitably be that the local demand will follow suit. On the other hand, a policy of adequate and effective safeguard for local production may bring about a cutting off of our hitherto foreign sources of supply for many an industrial product or manufactured goods. Their place will have to be taken by the output of our rapidly developing local industry. Internal commerce must therefore grow still further in proportion as the Foreign Trade declines in importance. The National Planning Committee has already resolved, *not* so to plan our economic development faster and build up local industry as to make it a means of dumping Indian wares in foreign markets, whose own industrial potential is yet not fully developed. There will, therefore, be all the greater need to develop the Home market, so as to absorb fully all

the expanding output of Indian industry, whose establishment and expansion must be regulated so as to attain this primary aim of national planning.

Internal Trade would, accordingly, have to be hereafter regulated carefully and controlled effectively, so as not to miss the mark set before the Central Policy in planned development. Perhaps that purpose would be better served, if the whole of that trade is regulated, as between the several units, by some public authority, if not conducted directly by that authority. Something corresponding to the United States model of the Inter State Commerce Commission, but with much greater powers, and more direct initiative in the actual conduct of trade, would have to be adopted if this facet of our national economy is to receive its due. Trade will then no longer dictate our basic economic; fiscal or financial policy; but will become a natural compliment of our productive resources to enable us to make a proper distribution of increased output and so help in improving the standard of living among the people at large.

PERSONNEL
OF THE
TRADE SUB-COMMITTEE

Chairman :

Shri Kasturbhai Lalbhai

Secretary :

Prof. J. J. Anjaria

Members :

Lala Shri Ram

Prof. C. N. Vakil

Shri G. N. Mehta

Prof. B. N. Ganguly

Shri Haridas Madhavdas Amersey

Mr. Husseinbhoy A. Laljee

Shri Chunilal B. Mehta

Shri J. N. Sen Gupta

RESOLUTIONS

Resolutions of the National Planning Committee on the Interim Report of the Trade Sub-Committee.

The trade Sub-Committee's Report had been put down on the agenda for the meeting of the National Planning Committee on the 26th June. But it was stated that the Report dealing with Internal Trade, though ready, had not so far been duplicated and circulated among the members. Certain draft resolutions dealing with Internal Trade were, however, ready. It was decided, however, that the whole subject, which was of great importance, should be considered fully at a later stage, when the full Report was ready and had been circulated.

At the request of the National Planning Committee however, Shri Kasturbhai Lalbhai, Chairman of the Sub-Committee, gave a brief account of the Report. He pointed out how internal trade was of far greater importance than external trade.

The National Planning Committee desired to emphasise the directions previously issued in the Note for the Guidance

of Sub-Committees (paragraphs 9 and 19 Handbook No. 1, p. 79 and 81). Paragraph 19 should apply not only to industrial development but to other development also.

The following resolutions were also passed:

1. *i. Owing to the size of the country and the population, the geographical distribution of various crops and minerals, the internal trade of our country is even today far larger than our foreign trade, and will be more so in future.*

   ii. Owing to this fact, it will play a more vital part in our economic life, and must be planned and fostered to contribute to our national well-being.

2. i. An essential step in such a direction is the realisation of the fact that our provinces are economically interdependent, and can advance only together and not against each other.

   ii. In framing any measures of local economic development, the broader background of the necessity of a corresponding well being in other parts of the country should always be kept in mind.

3. An immediate attempt should be made to collect and collate the statistics relating to the internal trade.

FINAL REPORT OF THE SUB-COMMITTEE ON TRADE.

1. We were appointed to report on the following:—

   (a) Trade-Local, Inter-provincial, Inter-regional and International;
   (b) the nature, volume and character of our domestic and foreign trade;
   (c) the treaties which have hitherto regulated any part of trade with other countries;
   (d) India's balance of international payments;
   (e) means of regulating and developing such trade so as to minister most effectively to the national prosperity, by means of bilateral trade agreements, and advancement of the cause of Indian traders settled in foreign countries;
   (f) place of middlemen in trade (domestic or foreign) and the charges made by them; retail trade organisation of stock and produce exchanges;
   (g) organised warehousing facilities.

Since the field of our inquiry was very wide. we

appointed a Sub-Committee consisting of:

Sjt. J. N. Sen Gupta,
„ G. L. Mehta, &
Prof. B. N. Ganguly,

to deal with the Internal Trade, and their report on the subject as adopted by us is attached herewith as Appendix I. The Chairman's Note on Export and Import Trade as adopted by the Sub-Committee are also attached herewith as Appendix II (A) and (B). Similarly we had asked Prof. J. J. Anjaria to deal with the Balance of Payments and India's Land Frontier Trade. His notes are also attached herewith as Appendix III (A) and (B).

II.

2. We have naturally to look at the above problems from some focal point, and, therefore, the first question that arises is as to what this point is. What is the objective or the standard towards which we should direct our efforts and in terms of which our achievement should be measured? The most obvious aim would be one of attaining national self-sufficiency. But, for one thing, national self-sufficiency could be considered only in respect of the import trade; for another, national self-sufficiency by itself cannot be the ultimate aim. It is not desired for itself, but for its implications in the way of a larger income through a well-balanced development of the entire economy. Perhaps the same thing could be expressed by saying that our ultimate aim is to increase the real income of the people, so that through it, they are able to attain a higher standard of living such as the N. P. C. has envisaged.

3. Any planning of the trade of the country should, therefore, harmonise with this aim. It would mean, of course, that our external trade should be so organised that we are able to have the maximum of imports with the minimum of sacrifice in exports and thus enrich our income.

But it will also mean many things more. In a country like the U. K., where the major part of the daily necessities of the masses has to be imported, the external trade holds the centre of the stage, as a difference in the terms of trade would make a great difference to real income of the masses. In our case, on the other hand, where the larger part of income is spent on home produced goods, internal trade has a greater importance. That again would mean that we will have to watch not merely the external terms of trade, but also the internal terms of trade at every stage, so that neither on account of a monopoly, nor on account of a higher cost of distribution, our income is frittered away in the use of the non-essential things and services. The scope of our examination would, therefore, be necessarily wide and would include every aspect of our economic life, which directly or indirectly affects our trade, or is similarly affected by it. It must be realised that trade is a result of a number of cross currents, some temporary, and some permanent, some accidental and some inherent; it is through these cross currents that we are trying to reach the position of enjoying a large real income.

4. It is, however, not our intention to encroach upon the work of other committees, and if we have emphasised our goal in terms of real income, it is only to give a clear perspective of the problem; and in the light of that to justify the conclusions that we have reached. If, for instance. the problem is as we have stated, it would mean that trade should be permitted to come into existence only after the needs for consumption have been satisfied or only to the extent that it is necessary to do so. This would, in a way, de-commercialise our agriculture and give an entirely new meaning to agricultural production. It would also follow that at some stage, we would have to consider the question of how far it would be desirable to insulate our economy from outside influences by distinguishing between a monetary standard for internal use and another for external use. We realise that these ideals, if fulfilled, will for some time consi-

derably decrease our trade, and may adversely affect the *tempo of both our industrial and agricultural production in some directions. But with the things as they are, we do not* see any other way of raising the real income of the large masses unless we want to repeat the mistake made by the U. S. S. R., and impose a heavy sacrifice on our already burdened agriculturists.

5, We have used the words "as things are at present" above with a purpose, as all our remarks are based on the present state of our agricultural production. If, in future, measures are adopted which considerably increase the agricultural production, and if simultaneously rents are controlled and other burdens of the agriculturists removed, their income would have then increased sufficiently to create a spontaneous increase of trade, We have no idea as to the extent to which these measures will come to be adopted, and whether their course will be simultaneous with other measures of economic ameliorations. All that we can, therefore, say at this stage is that if conditions justify it, we would welcome a great increase of our trade in general, and of the export trade, in particular. We are, however, not very hopeful of reaching this happy condition at an early date. Till then, we are afraid, our conclusions, though disappointing, are more logical and correct.

III

6. It should have been clear from the above that, among the two divisions of our trade, internal and external, we attach a greater importance to the former. It is really here that our investigations should start and then only extend to external trade. But there is another reason also. If we want to plan anything in terms of agricultural or industrial production, the plans will have to be continuously modified on account of the influence of external competition and external price fluctuations. If, for instance, acreage

under cotton is planned to give a definite income to the agriculturist, it is no use if foreign cotton or their prices are permitted to disturb the arrangement. It will upset not only that particular corner of the plan, but the entire plan itself. The sphere of external trade will have, therefore, to be considerably reduced, and we will necessarily have to think primarily in terms of the requirements of our internal trade. To this should be added the fact that internal trade will be amenable to our control in all its spheres, while external trade will not be so. The planning of internal trade, therefore, could be made the main instrument and channel for reaching our objective.

7. We do not have sufficient data to estimate correctly the size of our internal trade, though it is possible to make a rough guess with the help of various figures. Some time back Prof. K. T. Shah attempted an estimate and came to the conclusion that it was near about Rs. 2,000 Crores. In the report submitted to us this figure is estimated to be at 7,000 Crores. This is arrived at by estimating the saleable surplus of various commodities and the frequency of exchange in the case of each commodity, and then multiplying these two. The resultant figure expresses the value of the total turnover from the time the goods leave the producer and reach the consumer. It is thus inclusive of the cost of distribution and transport. We feel that on the whole the estimate has been made on conservative lines and it would be safe to assume that our internal trade is not less than Rs. 7,000 Crores. This figure may be contrasted with the size of our external trade which is about Rs. 500 Crores. (Vide Appendix I on 'Internal Trade', Chapter. I).

8. More remarkable than the size, however, is the distribution of the trade. On account of the natural configuration of the country, and the climatic differences, there is an excellent geographical distribution of agricultural crops, forest products, mineral resources, and the allied industries. It can be seen from the Report, for instance, that among the staple requirements of our people, rice is

concentrated in Bengal, wheat in the Punjab, and U. P., Jowar in Bombay and C. P., and the rest in the Gangetic Doab. In the commercial crops, a large part of the Linseed is accounted for by Bihar and C. P., mustard by Bengal and Bihar, groundnuts, cocoanuts and castor by Madras, raw cotton by Bombay and C. P., and raw jute by Bengal, Bihar and Assam. Similarly in the case of Forest and Mineral products, each of the provinces would appear to have predominance in some essential product. As a consequence, while a province is able to supply a particular commodity predominantly, its internal economy is not self-sufficient in other essential requirements, and has to be supplemented by a recourse to other provinces. Bombay, for instance, may be able to clothe itself, but it must get its wheat from the Punjab, rice from Bengal, tea from Assam, sugar from the U. P., and steel, coal, jute, for its industries from Bengal and Bihar. This is so in the case of other provinces also, and consequently there is a vast inter-provincial trade rich in range and wide in variety. (Vide Appendix I, Chapter II).

9. This, however, does not mean that either the external or the internal trade in different provinces is equal. In fact there are wide variations in both due to several reasons. The money value of the articles exported naturally differs from province to province, and consequently the more industrialised the province, the larger is the value of its exports. Then again the imports depend upon the type of industries a province has got, the type of crops it grows, and the concentration of its population. The case of a province like Bihar may illustrate the point. It has valuable exports in Jute, Cotton, Iron and Steel. On the other hand, its imports are very few, as it has got all the necessary raw materials for the above industries and also the food grains for its consumption. The result is that on balance it shows a surplus of exports. This is also in the case of the U. P., C. P., and Madras. Similarly, in the matter of internal trade, since most of our production is agricultural, those areas which are more dependent on agriculture seem to have

a larger internal trade. In this they are helped by the fact that in provinces like the U. P., and Bihar there is a larger concentration of the population which would naturally require a large turnover of goods to maintain itself. (Vide Appendix I, Chapter IV.)

10. When, therefore, it is suggested that there should be a balancing of economy as far as possible in each province and as between the different provinces, we should be careful as to what we mean by the term. Balancing of the money values of the provincial exports and imports, will and need never be attained, as with the best of planning it would be difficult to arrange for a distribution of resources and population which will give this result. Besides, what really matters to the people is not the money value of the products which are exported or imported, but the margin of profit in the occupation they have chosen and the real income available through it. It is this quantum of comfort which should be balanced so that nowhere in fact a person is able to enjoy a larger comfort than another similarly occupied elsewhere. This would mean that we have to take into account the internal trade of each province, the cost at which this trade supplies the essential needs of the people and the margin in purchasing products from other provinces. In short, we would have to examine the whole gamut of economic relations, and to think in terms of equitable economic relations between different classes and functions all over the country rather than between the different provinces. We are quite sure that various other committees will examine these relations relevant to the problems with which they have to deal, and the National Planning Committee will also have to do the same. We, therefore, content ourselves with the observation that any equitable distribution of income will automatically introduce an economic equality between the various provinces.

11. The above analysis of the distribution of agricultural and other products would show that our provinces are far more inter-dependent than they would seemingly

appear. As against the popular belief that the rest of the country is at the mercy of the industrial portions on the Eastern and Western coasts, we must emphasise that the industrial areas are far more dependent on the agricultural areas both for their raw materials and their food supply. This would mean that if ever there was any talk of self-sufficiency in terms of the provinces, it should be completely discountenanced, and we must think only in terms of the whole country as one economic unit.

12. At the same time the distribution of our productive resources referred to above raises certain issues regarding planning. Even if we think of the country as one economic unit, it is a question whether it is to be developed as one unit or separate regions whose plans will harmonise with each other. If we accept the basic fact that most of our provinces can grow the necessary food grains, then the only thing which would stand in the way of a regional development of the country is the present localisation of the industries. But then it must be admitted that industrial costs are far more flexible and even if in some cases the existing localisation might be the result of some economic advantages, they are not always of a nature which could not be balanced by other factors. The development of the Hydraulic Power Stations, River and Motor Transport will necessarily create a tendency for decentralisation of quite a few industries and favour planning on a regional basis. Even the fact that on account of the vast size of the country, goods have to travel long distances, is a point which should not be neglected. We would also refer to the case of the U. S. S. R. which developed its economy on these lines. While, therefore, we would like to encourage the growth of centrifugal tendencies, we do not know whether it could not be achieved by a proper balancing of the economic development of the various regions. It will be perhaps easier to do this, if we think of the country as divided into economic and not administrative divisions. Each region could then aim at a specialisation in those commodities where it has got a distinct economic advantage, and yet have

a sufficiently wide base of economic life so as to assure balanced distribution of resources and man power.

13. Whether, however, we have centralised or decentralised planning, one thing is quite clear. We will necessarily need the services of an inter-regional or inter-provincial Board like the Inter State Commerce Commission in the U. S. A. Our brief experience of the responsible ministries in the various provinces has shown us that unless there is such a body to co-ordinate the economic aspirations of different provinces, there would be a confusion of ideals and methods. It may be remembered, for instance, that the sales tax announced by the Government of Bombay was different from the one adopted, by the Government of Madras. Similarly, there was a considerable difference in the policies adopted by the Governments of the U. P., C. P., Bihar, Bombay and Madras, regarding wages and problems affecting labour. Even the ultimate economic aims to be attained seemed to differ in different provinces. The magnitude of the danger in the absence of a co-ordination could be realised from the fact that the Provincial Governments are prone to local patriotism and are fully competent with their existing fiscal and legislative prerogatives to either hinder or encourage the growth of particular types of trade as it suits them. We need mention only the chaotic condition of local taxation which even now is irrational in its favours or disfavours. We realise that the existing economic condition of a province would affect the tempo as well as the direction of the economic change and to that extent there would be certain differences in the methods of approach. But unless these endeavours conform to a common policy and a common ideal, they will seriously hinder the development of the other parts of the country. We would, therefore, suggest the creation of a body which will be able to supervise the provincial activities and put an effective check on policies which are likely to conflict with the common good, defined in terms of a programme of co-ordinated development for the country as a whole. (Vide Appendix I, Chapter III).

14. We have already mentioned above the fact that the estimate of internal trade given by us includes the cost of distribution and transport. It has been assumed that the distributive chain consists of four transfers from the time the goods leave the producer, and reach the consumer. While these transfers or frequency of exchange as they have been called, are likely to be less in some cases, we think that they have been estimated on a fairly conservative basis. Even then, however, as they imply the existence of so many middlemen, the question arises whether our distributive machinery is not larger than what it should be.

With a certain amount of regional planning and with the organisation of the trade, suggested above by us, this number would definitely come down. But in the existing circumstances, we do not think it is unduly large. We must remember that our country is very vast, and that the various provinces are inter-dependent. In the case of agricultural produce, therefore, it means a travel of the goods from the villages to the towns, and from there to the cities. From the cities again, they are redirected to the various consuming centres. We find that even in the organised trade in manufactured articles, it requires the services of at least three independent agencies, excluding the Broker. Manufactured goods are first sold to a wholesaler in the industrial area itself. He then sells them to similar wholesalers in the other parts of the country through whom the goods are actually distributed. It would, therefore, appear that owing to the distance between the producer and the consumer, these links are necessary.

15. Regarding its cost, we regret we do not have enough data in our possession to say anything definite about it. Naturally, such costs will differ from trade to trade, and will be greater in unorganised trades than in the organised ones. But our experience with the organised trades makes us feel that the general standard of remuneration for the distributive services cannot be high. We find that in organised trades, the wholesaler's commission in most cases is below 2% and

when he does business, his margin of profit is not above 5%. The brokerage charges are also very small compared with the services which are rendered by these people. Consequently it would appear that in the case of the organised buyers. both in agricultural produce and manufactured goods, the cost is probably not high. Unfortunately, however, to the vast bulk of the consumers, it is the retailer's costs which matter. There, one must admit that the distribution is not properly organised, and the consumer must be necessarily paying something for the lack of proper organisation. At the same time, it would not be correct to assume that the retailer's costs should not be higher than the wholesaler's. The retailer is the last link in the chain of distribution, and has to bear the full brunt of changes in demand and fashion. The apparently high margin of price which he charges to the consumer is really an allowance for losses in goods which he cannot sell off easily. These and other provisions for the shortcomings of the economic organisation will continue to be made in any economy, which gives a free play to the consumer in his selection of goods and should be allowed for when judging the reasonableness of the retailer's charges.

16. There is another point also, which requires consideration in this connection. Our distributive organisation fulfils two functions—one of distribution proper, and the other of Banking. It is not upto us to go into the causes for this state of affairs, but we feel that if one could separate the charges for the two services, the charges in the case of the former would not be found to be unreasonable.

17. Whatever it is, a certain amount of reduction could be brought in both the charges, if the producer was offered a larger scope for an easy disposal of his goods. On account of the fact that our produce is not graded and standardised, the area in which our producer can select a trader is definitely limited. Similarly, on account of the absence of warehousing facilities, he is often forced to sell his goods, whether the prices at the moment are remunera-

tive or not. We, therefore, feel that the first essential step in the elimination of redundant middlemen, and the reduction of distributive charges should be towards a standardisation of the produce and the provision of warehouses. It would not, however, be possible to introduce the second till the goods are standardised, and made capable of warehousing in a common godown. It is, therefore, suggested that we should immediately have committees of experts in each trade, who will prepare tentative standards of goods and also grade the goods in their own trade. So far as the warehousing facilities themselves are concerned, they could be provided by the local or the provincial authorities.

18. We have been asked whether our commerce should be nationalised or not. As already stated, and as mentioned below in our treatment of the Export and the Import Trade, a certain amount of control over producers and consumers would follow from the general line adopted by us. In the case of our external trade, with the development of planning, the control would naturally increase. These steps would be required by any plan, if it is going to be capable of fulfilment. Whether, however, this control will grow into ownership of the means of production, we ourselves cannot say, though as far as the distributive machinery is concerned, we do not think it is necessary. As we have already stated, we do not think that in the absence of more detailed data, we can subscribe to the assumption commonly made, viz., that the cost of distribution is unnecessarily high. We have also stated that its variations are likely to be smoothened out by standardisation and facilities of warehousing. Besides, any consideration of this issue could come only after the productive resources are state-owned, and the needs of the consumer well regulated. We therefore, suggest that it would be a better course to gradually permit the middlemen to become harmless, with the growth of control in the above directions. We would come to the same conclusion if we took account of the fact that the number of persons who compose this organisation is so large and their services are

so various, that it would be difficult to replace them by state-owned shops or stores.

19. The other cost that has to be considered is the cost of Transport. This and other questions like the provision of better transport and the co-ordination of existing services are subjects for the committee dealing with transport. Therefore, we content ourselves by observing that transport is an important factor in the development of trade, and that the decisions taken regarding its cost, and co-ordination will have determining influences even on the distribution of our industries, and through that on regional planning. (Vide Appendix I, Chapter V, Paras 3-7.)

IV

20. In the treatment of our Export Trade, the first question is, once again, of selecting the correct objective. Since in our opinion, the external trade should be permitted to have its value only in relation to and derived from the Internal Trade, the basic considerations which should guide our policy in the long run are already fixed. At the same time, we have also to consider what could be described as the "quantitative aspect" of the external trade. In the following, we have first considered the quantitative aspect of our export trade as one of immediate but temporary importance and have invited attention to certain considerations, which in our opinion supply the more permanent aspect. (Vide Appendix II (A), Paras 2-6).

21. Considering the quantitative aspect first, it can be seen that the War of 1914-18, disturbed our trade with the European Countries and that for one reason or another we have not been able to recover that trade; on the other hand, our trade with Japan, the U. S. A., and the U. K., has been increasing. It is difficult to say as to what extent the decrease of our trade with countries like Germany, France and Italy has been an absolute loss of the market, due to

the commercial policies followed by these countries. A part *of the decrease may be due to the working of the Ottawa Agreement and a part is perhaps merely a recorded decrease,* as under the Ottawa Agreement, U. K. had considerably developed an *entrepot trade.* In any case, taking up the present distribution of our trade we find that the major part of our exports are taken up by the U. K., Japan, U. S. A., Germany, Belgium and Ceylon. With the separation of Burma, that country also now occupies an important position. The distribution of this trade among the various commodities will show that nearly 2/3 of our trade is composed of Tea, Jute, Raw Cotton, Oilseeds, and Leather. Looking at the problem merely from the quantitative aspect, these figures raise two questions.

1. Can we improve the distribution of any of the commodities so that we are able to secure a larger market in any country than what it has got today?
2. Can we secure an increase in the total export of any of the commodities? (Vide Appendix II (A) Para 7.)

22. **Tea :** So far as Tea is concerned, the figures will show that U. K. is the largest consumer of Tea in the World market, the other best importers being Canada, Ireland, Egypt, U. S. A., and Australia. These countries comprise the main market for the export of Tea as the remaining European countries are mostly habituated to use Coffee, and consequently need not be considered for our purpose. Taking up the imports of Tea in these Tea consuming countries, we find that while U. K., Canada and Ireland are to a large extent supplied by India, in the case of other countries, the trade is almost entirely in the hands of Ceylon and Netherlands Indies. At first sight, this would make it appear as if there is scope for the expansion of our trade with the U. S. A., and Colonies. Actually, however, this is not so. The distribution of Tea in the various markets is at present governed by a system of export licenses under the International Tea Restriction Scheme, and as long as that continues our gain

in one direction may be balanced by a loss in another direction. This state of affairs is bound to continue as long as the arrangement under the International Tea Restriction Scheme continues. And looking to the problems that the producers of Raw Materials have to face, we do not think it would be possible to persuade them to give up a scheme, though decreasing their market assures them a definite profit margin. (Vide Appendix II (A), Para 8).

23. **Jute:** In the case of Jute the position is a little difficult of analysis. In Raw Jute, we have a monopoly of the crop, and in Jute manufactures, we are the largest producers. We are, therefore, in fact, supplying whatever markets there are available today and change in the export policy is not likely to increase the size of those markets. On the contrary, it would appear that we have to look at the problem of Jute from a different angle altogether. We have, for instance, to find out whether it is possible for us to widen the present scope of the use of Jute by an inquiry which would cover the fields occupied by other industrial fibres like Hemp, Sissal and Manilla. We have also to see whether we cannot protect it against the use of synthetic or other alternative materials. We note that the industry is conscious of these problems, and researches have already been undertaken to widen the scope of the market for the use of jute. The problem of its substitution by alternative packing materials is one of relative prices. We do not know to what an extent there is a margin for the reduction of Jute prices, consistent with satisfactory earnings to the Industry, but we would suggest inquiries in that direction. (Vide Appendix II (A), para 9).

It may also be mentioned that for some period, the Jute Industry at Dundee has been pressing for a duty on the imports of Manufactured Jute. So far this pressure has not been successful but in the event of it being so, we would suggest that we should seriously consider the question of a duty on Raw Jute exported to the U. K.

24. **Raw Cotton:**

(a) The figures in respect of Raw Cotton show a

maldistribution both as regards the quality of Cotton exported and also regarding the markets. It will be seen that the major part of the exports are below the fibre length of 7/8" and that half of these exports are taken by Japan alone. It will also be seen that while the Indian Mills have been increasingly consuming larger stapled cotton, their requirements are not satisfied by that and they are becoming increasingly dependent on foreign cotton of a suitable type.

(b) Two of the greatest impediments in the way of the expansion of the market for Indian cotton abroad are its comparative inferiority in comparison with the long-stapled American and Egyptians, and trade barriers imposed in various countries of the world in recent years. The question, therefore, naturally arises as to how we are to remove these impediments.

(c) Our natural inclination would be to produce more cotton of a larger staple. As recent experience shows, such a course is not impossible. But it would be helpful to us more for purposes of Home consumption than the Export. So far as the latter is concerned, such a change will bring us immediately in competition with a larger market, and may not necessarily be a boon. On the contrary, an inquiry would show that our costs of production are such that it may not be possible for us to stand in competition in this type of cotton with the U. S. A. and East Africa.

(d) Past history of the trade will show that we used to have bigger markets in Germany and that even today we have fairly good markets in France and Italy. With different trade policies followed in the first two countries, it may be possible to revive our markets there; in fact, Italy would appear to be fairly anxious to secure our cotton. Such a revival, however, would be dependent entirely upon the extent to which we are able to persuade these countries to revise their policy and as subsequent sections will show it may not be easy for us to do so. Besides this, short staple cotton is only used for coarse counts, in which Japan alone has a good sized industry. We would, therefore, suggest a

thorough technical research to be undertaken with a view to a successful utilisation of short staple cotton for medium counts. In the mean-while, it would appear that the best course will be to develop our markets in the U. K., for the use of cotton of our type, and that is likely to increase as the Textile industry in the U. K. is now concentrating on markets like African countries and consequently turning to coarser counts. (Vide Appendix II A, Para 10).

25. **Oilseeds :**

(a) The Trade in Oil consists mainly of Linseed and Groundnuts, which account for 2/3 of it. The rest is made up of Castor Seed, Rapeseed, Sesamum and other oilseeds.

(b) In this, the problem of Linseed is distinct. In this product, there are really two exporters, Argentine and India; though the producers include the Soviet Union and the U. S. A. Among these two exporters, Argentine has a much larger export and a wider distribution of the markets, while our Exports are mostly confined to the U. K. The actual share of the market that either of us get any year, depends upon the parity of prices between ourselves and Argentine.

(c) It would accordingly appear that we have a fairly large scope in countries like France, Netherlands, Belgium and Germany, which have markets almost as big as the U. K. It wauld also appear that it will not be difficult to secure these markets, as the ties between Argentine and these other countries are not particularly strong, and as our Linseed is of a distinctly superior variety. We would be able to take a helpful step in this direction if we were to control the present erratic and speculative behaviour of the prices of our Linseed.

(d) India is the largest producer of Groundnuts, and also provides a substantial part of the Export Trade. But of late, countries like Nigeria, Gambia, Senegal and Netherlands, East Indies are coming into the field. In fact, the proportion of the exports by Nigeria and Senegal has been increasing at a rapid rate, as a consequence of which India

has already lost her Imports' place in France, and is apparently, losing it in the U. K., and other countries. Since France is closely connected with Senegal, and U. K., with Nigeria, it would be difficult to surmount this position. India in this case also must look to other countries on the continent.

(e) The real difficulty, however, in the matter of Groundnuts and other Oilseeds is of a different nature. A greater part of these products are being used in the manufacture of Soap, Margarine and Compound Lard. Since 1932, however, the proportion of vegetable oil, is being increasingly replaced by Whale and other marine oils, except in the manufacture of soap. It is difficult to say how long this tendency will continue, but it is clear that the more dominating problem in the case of oilseeds, is one of narrowing of the markets rather than of distribution. We suggest that we should try to face this by undertaking Industrial Research to find out whether we cannot successfully fight out the marine oils from the field which they are now encroaching upon. (Vide Appendix II A, Para 11).

26. **Raw Hides:** India is one of the largest exporters of Raw Hides and Skins and the trade is fairly well distributed also. In Raw Hides, Germany used to be our best customer, and even now is a large importer of Raw Hides from other countries. The recent trend of our trade seems to be towards a larger concentration in the U. K., but as the trade in U. K. itself is of an entrepot nature, there is perhaps no substantial difference in the ultimate distribution of our products. In Raw Skins, on the other hand, the U. S. A., have been our largest importers. Our Trade in Raw Hides has been mostly of the 'light type' and in Skins of 'Sheep Skins'. In both cases, we have a practical monopoly of the trade of the U. K. (Vide Appendix II A, para 12).

27. **Tobacco:** In the matter of Tobacco, we stand next only to the U. S. A. in our production. But as we are also a large consumer, only a comparatively small quantity comes out on the export market, and is less than the quantity

exported by the U. S. A. Our Tobacco is not suitable for the manufacture of Cigarettes, and as such we have only a small market available to us which is concentrated in the U. K. Recent experience has, however, shown that it is not impossible for us to grow Virginian Tobacco, which can be used for Cigarette making. We should, therefore, increasingly concentrate on the production of such a Tobacco, and thus secure markets which are closed to us. We should also try to popularise the use of Indian Cigars and develop a market in them. (Vide Appendix II A, para 13).

28. Accordingly, we would answer the two questions that we formulated in the beginning of the section as follows :—

1. We can possibly improve the distribution of Raw Cotton, Linseed and Hides and Skins among the different markets. In the case of other commodities such an improvement is not possible either because we are monopolizing the entire available markets or because the markets are governed by factors other than purely commercial.

2. Except in the case of Raw Cotton and Linseed it would not be possible for us to increase our total exports. (Vide Appendix II A, para 14).

29. We would, however, mention that even if we are able to expand our markets in certain commodities, such a gain will be merely a temporary one. We feel that it should be realised that if we have been losing our markets it has been partly due to commercial policies followed by different nations and partly to the fact that new competitors in the form of colonies and alternative commodities are coming into the field. For some period, it was thought that these were only temporary factors, but we feel that it would be advisable to take them as the normal features of International Trade. Even if the prevalent ideas of self-sufficiency in economic matters were to weaken at a later date,

other ideas with effect in the same direction may take their place. We have, for instance, to take account of the fact that there is a universal desire to have a more controlled economy with a view to minimise fluctuations both in real and money incomes. This must necessarily continue and in most cases even increase the existing control of the foreign trade, and to that extent stand in the way of the expansion of our trade. Recent conceptions of the functions and the powers of the state also indicate a tendency in the same direction. (Vide Appendix II A, para 15).

30. Similarly in the case of colonies it may be taken that the process of their exploitation will be more intense. In appraising this, account should be taken of the fact that for one reason or another, the administration of these colonies is more convenient for such an exploitation. This apprehension will be clear from the examination of the positions occupied by different countries in the U. K. market in respect of Tea, Coffee, Oilseeds, and other agricultural products. We do not think that this competition has yet reached a stage when an old established country like India, should be nervous of its position. But considering the fact that most of the colonies have more or less virgin soils, increasing competition should be taken as a normal feature of the course of future development. (Vide Appendix II A, para 16).

31. We would, therefore, conclude this survey of the quantitative aspect of our trade by stating that the trend of events is such that it would be difficult to increase our export trade to any substantial degree and that continued efforts will be required to maintain its present size in all the various commodities. Improvement in the geographical distribution of our trade will on the whole be helpful to us, only for the latter purpose. (Vide Appendix II A, para 17).

VI

32. It will be easier to understand what we have styled

as the more permanent aspect of our trade, if we understand the nature of exports themselves.

33. The export of commodities is supposed to come into being on account of several reasons. In the first place we might be so favourably placed in the production of some commodities that it would pay us to export them in competition with other countries. In the second, we might have contracted international debts in a previous period and our present exports may be the only way to pay them off. In the third, our existing imports may be so essential to us that we have to continue to export some goods to secure them. Generally the actual stream of the exports is supposed to be caused by all the three causes and emphasis is placed on one or the other of these causes only as a predominant cause for the particular period under examination. (Vide Appendix II.A, para 27)

34. A moment's consideration, however, will show that the above way of looking at the export trade is more an abstraction created for the purpose of looking at the problem as a whole. It is obvious that except in the case of a country like the U. S. S. R. the country as a whole, neither imports nor exports in the above manner nor is it conscious of any balancing of account. There is no simple account through which all transactions are passed as the above version would make us believe. On the contrary the producer of the goods which ultimately become exports is not even aware of their final destination, nor is he concerned with the previous debts or the essentiality or the non-essentiality of current imports. Not only this, while what is imported is consumed in the country, the importer is a different person altogether and except in rare cases the considerations which guide the exporter are the same as in the case of the importer. (Vide Appendix II A, para 28)

35. Consequently it would be perhaps more correct to say that if exports come into being they do not do so consciously for any of the reasons mentioned above, and are more an extension of the market for the commodity inside

the country. This could perhaps be explained as follows. The market for a commodity, even inside the country, of origin is not single and uniform; it is rather divided into different zones with different sets of costs due to various *reasons. A commodity may, therefore, be able to penetrate into one zone and fail to do so in the case of another.* An export market is merely one additional zone with the only difference that the initial calculation of costs is distorted on account of a difference in the currency and a difference of course just as they will move from one corner to another inside the country itself. (Vide Appendix II A, para 29).

36. When once this position is accepted it would seem to follow that:

1. Whatever the defects or otherwise of economies of production in the home market would be represented in the export as well.

2. The import position may be such that it may unduly depress the Export market.

The first would straightaway dispose of the common assumption that whatever is exported is necessarily paying and explain the distinction that we have been trying to draw between goods which are 'exported' and goods which are 'exportable'. If the Export market is an extension of the Home market, then there would be a number of exported commodities which would not be paying even in Home production, and which are produced simply because there are no other means of livelihood. It is clear that an indiscriminate encouragement of each and every export will not be to our advantage in such conditions. This should put us on guard against the common craving for larger exports as something necessarily worth striving. More than all, however, it would follow that previous to the adoption of any specific policy for the exports, it would be, incumbent on us to investigate the exact position of the commodity in our internal economy and to adjust the export policy only in relation to the conclusion derived from such an investigation. (Vide Appendix II A, paras 30 and 31).

37. The second raises the same question from another angle. The mere fact of some parties having contracted debts, or some parties importing large quantities of goods may unduly cheapen our export to another country and create or perpetuate a disharmony within our internal economy. This effect is of course generally admitted but its implications are not always realised. In a country like ours which is getting industrialised, the import of machineries and other stores will necessarily create a huge transfer of funds from the importing section to a foreign country. Such a transfer while perfectly in harmony with the cost conceptions of the industrialists who import these machines, may impose a disproportionate burden on the agriculturists. (Vide Appendix II A, para 32).

VII

38. This would perhaps be easily understood, if we were to draw upon the experience of European countries under the problems of 'transfer' due to war debts. There the exchange had necessarily to be depressed to accommodate the huge transfer of funds and that in turn depressed the value of a considerable range of goods and brought them within the zone of export markets. In consequence the exports increased, but their size was more an indication of the privation the nation was undergoing rather than any increase of wealth. Similarly, European countries also have an experience of a commercial policy being advantageous to one class and disadvantageous to another on account of the existence of classes with different means. For instance, during the latter part of the 19th century a commercial policy which enriched the industrialists and the working class, imposed a great hardship on the agricultural population of almost all the European countries. This was due to the fact that imports of foodstuffs from the new countries were bought at such cheap rates that the Home agriculture could not stand

the competition. It is not as if the particular policies followed had no other considerations; *attention is merely drawn to* to the fact that a disharmony could be created on account of the commercial policy and account should be taken of that among other things. (Vide Appendix II A, para 33).

39. We feel that it would be worthwhile to undertake an expert examination of the economics of our exports in the light of these observations. We do not intend to convey that all our exports will be found to be unremunerative on these considerations. In fact, making an allowance for the abnormal fall in prices, quite a few may be remunerative. But it would be a proper corrective to the opinion which believes that larger exports are not only necessary, but also good. We would go even further and state that if such an inquiry reveals that some of the Exports are really unremunerative, we should be prepared to stop them. Only on this basis can a long period plan for the Exports be built up. A neglect of these considerations will give an undue importance to the ebb and flow of the quantitative aspect of the trade, and succeed in hiding the real issues. (Vide Appendix II A, paras 34 & 35).

40. In stating this, we are aware that for some period to come we will require large export balances for the Home charges, and for the Imports of machinery, etc. for our programmes of industrialisation. That would make it necessary for us even to force up our exports. Even in that case, however, it will be better to have a clear conception of the sacrifices we are making, and in which commodities we are doing so, so that when the need arises we can arrange to discontinue such exports. (Vide Appendix II A, paras 36 and 37)

41. We might also mention another thing, which is relevant to the whole of the above consideration of our exports. All along our observations are based on current productions, current qualities and current cost of our agricultural production. Since conditions are likely to be changed all round on account of the adoption of planning,

the whole position will have to be reviewed from time to time. (Vide Appendix II A, para 38).

VIII

42. Ever since export and import duties came into existence, treaties for seeking concessions have been popular. In the last quarter of the 19th century they were a favourite method of securing markets in other countries. This method was, however, successful mainly for the reason that in most cases the import or the export duties were revenue duties, and were frankly regarded as bargaining counters. They were reduced without much ado as soon as the bargain was struck, and their purpose fulfilled. Even in cases where the duties were protective in nature, there was always a sufficient padding in them, which would be removed without any disadvantage to the industries protected. Consequently, the treaties were simple in operation, and their benefit was common to all the contracting countries. The most common form of the treaty was one providing the Most Favoured Nation Clause.

43. The ideas underlying the recent tariff policy are, however, different. These duties are essential props in the internal economy of the country, either for monetary stabilisation or preserving the Home market. They are also intimately connected with, and in most cases, results of the problems of transfers, and exchange control. They cannot be renounced light-heartedly, or freely as the old revenue duties. Consequently again, the treaties are more elaborate and more guarded in their wordings. In many cases, they are so hedged round with other measures, that they are mere pious expressions of goodwill towards the contracting party. The result is that today no trade treaty is really sound, unless it compels the contracting party to purchase a definite quantity of goods or to reserve a sufficient block of exchange, so that goods in fact will be bought.

44. We have given only a bare outline of the present situation as the details could be easily available. But this should be sufficient to convey how extremely difficult it is becoming to secure any advantage by Trade Agreements, unless we ourselves are prepared to bestow an equally real advantage to the other party. The examination of our own case will show that this is not always possible—particularly if one wishes to please several parties.

45. We have shown above that in quite a few commodities we command the entire market which we possibly could. In the case of others, if, properly analysed, their problems are such that they could be more properly tackled through industrial or commercial research. If this be so, trade agreements, as instruments of securing larger markets, will not be very helpful to us and at best could only ensure the position which we have secured in the various markets. Besides this, as we have referred to above, and as we found in quite a few cases under the Ottawa Agreements, in actual working there are a number of devices, both customs and fiscal, which render the concessions purely nominal. We refer, for instance, to the cases of preferences on Linseed, Groundnut, and Tobacco under the Ottawa Agreement. In our case specially, it is particularly difficult to get a real concession, as we export commodities which are industrial raw materials, and no country would like either to increase the price of its raw materials or to get tied to one source of supply. The unwillingness of Lancashire to commit itself to the poorer grades of our cotton and to a more extensive use of our cotton in general is an instance in point. Besides, we should also take into account the present distribution of our trade, which is mostly with the U. K., and also of the fact that among the other European countries, France has a colonial empire, whose ties are closer, and that the policies followed by Germany and Italy would not permit any expansion of our trade with them, unless we give them some real concessions. The fact is that we are so placed, that once we begin to think in terms of trade agreements, the force

of the conditions leads us to a Trade Agreement only with the U. K., a position which we must avoid if we want to force rapid industrialisation in the country. (Vide Appendix II A, paras 18 and 19)

46. This would be the picture if we thought in terms of the advantages we could secure for our exports. It becomes more disappointing, if we look at the other side, namely the concessions which we have to give in our imports.

47. Our imports consist mainly of manufactured goods, which are, in a way easy of classification and differentiation. But, for the advantage to be real to the other party, both the customs classification and the tariffs will have to be sufficiently elaborate to exclude a third party from any of the benefits; in fact, we would require three-decker tariff in most of the imported commodities. When we remember the fact that we want to increase the range of protected industries, and when we also remember that we want to buy quite a few things cheaper for a rapid industrialisation of the country, it would be clear that the fields which we could reserve for manipulation above mentioned would be very small. Nor, indeed, will it suit us to link up one commodity with another through quotas, as we have done in the case of Japan. A series of linked quotas could act only as a disturbing influence on the trade, while what we are aiming at is a stabilisation of the whole of our economy.

48. We would come to a similar conclusion, if we looked at the problem, in another way. Normally, there is a greater competition for securing raw materials than for manufactured goods, with its healthy effect on the prices. When we, therefore, divert our trade to a paticular country, by a treaty arrangement, we merely remove that competition and instead of being able to secure a better price, possibly help to cheapen our supplies to that country. At the same time it is comparatively easy to change over from one source of raw material to another, on account of the inherent homogeneity. On the other hand, the manufacturing country stands to gain a distinct advantage in the country

to which it is sending its goods. If it is able to secure duty-differentials, they are sufficiently wide to bestow an exclusive market in some goods and to help in building up such a market in other goods. This is due to the fact that as manufactured goods are not homogenous, it is easier to build up a habit or to develop a taste for certain goods. On account of the same factors again, as the arrangement works out, it is found that the value of trade which enjoys the benefit of treaty arrangement, and the quantum of the benefit enjoyed is always larger in the case of the manufacturing country. (Vide Appendix II A, para 20).

49. This is what happened in the case of the Ottawa Agreement and this was their greatest disadvantage. The more or less exclusive markets that the U. K. got for its steel and cotton textiles, far outweighed any advantage that India could secure in the U. K. market. While concessions given by us helped it to entrench its position in our market, our position could never be equally strong in the U. K., and the slightest price differences disturbed it. It would accordingly appear that unless the contracting countries have reached an equal stage of development, securing of markets by commercial treaties, would always impose a larger burden on the less developed country. (Vide Appendix II A, para 21.)

50. We may, therefore, conclude that if we adopt a policy of having commercial treaties, the underlying idea should be more for the removal of handicaps against our commodities rather than for the purpose of securing any special advantages for them. It would also mean that we should not differentiate between the treatment given to one country and another, if we could help it.

IX

51. This is, of course, not to say that no further positive action be taken to encourage our exports. Such action is clearly necessary, if we we want to stabilise our position

in the various countries. On account of the fact that so far, the initiative for developing our trade has come from the U. K., the channels through which it flows are also British. For instance, right from the port of export, the goods are handled by British Houses, shipped in British vessels, and insured and negotiated through British Institutions. On the other side of the sea, of course, there is no Indian representation at all. We must, therefore, build up these channels, which will handle the goods at both the ends, and will thus have a greater stake in the commerce than the present foreign houses. Similarly, we should encourage the growth of other institutions. This development will be necessarily slow, but if we succeed in building it up, we will to that extent succeed in stabilising our export trade. (Vide Appendix II A, para 22).

52. Similarly, we should gradually endeavour to change the character of our export trade. It should have been sufficiently clear by now that our exports consist mainly of raw materials, while our imports consist of goods which are manufactured from these commodities. It would, therefore, be to our advantage to introduce a manufactured or semi-manufactured bias in our exports. Example may be given of our trade in leather where gradually we are passing from raw hides to semi-tanned and tanned hides. It would also not seem impossible to develop an export of boots and shoes. Similar attempts may be made in other commodities. For instance, raw tobacco may be replaced by cigars and cigarettes; and raw cotton by cotton manufactures. For this purpose it would be necessary for us to create several links as mentioned above, and also to introduce further reforms where necessary. It was for instance, realised that in spite of our huge exports of oilseeds we have not been able to develop an export of vegetable oils because we lack the necessary facilities of tankers both on the railways and the steamers. (Vide Appendix II A, para 23).

53. Simultaneously with this, we should also consider another proposition. The distribution of our trade shows

that it is mainly confined to the European countries. In as much as we export raw materials for industrial uses, this will have to continue, but we can possibly introduce a manufactured bias, if we investigate the possibility of the development of our trade with non-European countries which are situated near. It would not for instance, be impossible to increase our trade with Iran, Arabia, Kenya, Strait Settlements, Ceylon and Java. While the standard of living is admittedly low in these countries, the stage of their economic development is also lower, and both these facts may be actually useful to us. Our manufactured goods will be comparatively inferiorly finished in their earlier stages, than the better finished European goods, but at the same time, will not meet with a strong competition. It is not as if we will be able to develop a larger trade at once, but the point has to be stressed, as so far only the European countries have bulked large in every consideration of our commercial policy, even though we seem to have greater eventual advantage in these other countries. (Vide Appendix II A, para 24).

X

54. An analysis of our present imports between various commodities wlll show that the chief place is held by cotton and cotton piecegoods and that the next in importance are, oils, machinery and millwork, metals and ores, grain, instruments and vehicles. These account for merely 50% of the trade, the rest being distributed over more than 50 other articles. The more remarkable thing, however, is the place occupied by different countries in the supply of these articles. In iron and steel, machinery, hardware, instruments. papers, chemicals, provisions, vehicles, and cotton manufacture, the first place is occupied by the U. K. with almost half a share of the entire trade, while the second place is occupied by Germany, in all the articles except the last two, where the rank goes to

the U. S. A. and Japan, respsectively. In silk manufacture and artificial silk, Japan occupies the dominant position with a trade of almost 70% to her share. (Vide Appendix II B, para 3).

55. If we compare this position with one operating previous to 1914, we find that during these 25 years, considerable changes have occurred in the relative position of the various countries and commodities. Japan which used to have a bare 2% trade with us, has now increased it to 12% mainly due to the cheapness of her textiles and the emergency of Artificial Silk. Similarly, the development of the Motor Car Industry has increased the share of the U. S. A. from 3 to 7%. On the other hand, the development of the textile, the steel and the cement industries has decreased the share of the U. K. from 60% to 30%. This change in the composition of the trade has also brought almost a change in the relative positions of the Empire and non-Empire countries. (Vide Appendix II B, para 4).

56. We trust that the difficulties that we had pointed out about Bilateral Agreements will now be better realised in the light of the above analysis. If our imports were more evenly distributed among the various countries, it would not be impossible or costly to distinguish between one source of supply and the other. But with the present distribution, if we decide to give concessions to countries like Germany, they will also have to be given to the U. K; otherwise, the price of a large part of our supplies will be increased without any corresponding advantage to us. Such a course, however, will be of no particular benefit to Germany, as it will not protect it against its main competitor, the U. K. Similarly, in the case of the U. S. A., and Japan, in the cases of those commodities in which they occupy second places, and still more so in cases where they occupy first places as suppliers. It would, therefore, follow that so long as the present dominant position of the U. K. in our market continues, we cannot think in terms of giving preference to any one country in particular. These considerations are, of

course, strengthened by the fact that we will, in future, have to import large supplies of machinery and other articles for rapid industrialisation of the country. (Vide Appendix II B, para 5).

57. We may mention that this in effect was the line taken up by the non-official Advisers to the Govt. of India, when they negotiated in 1937-38 for the trade agreement with the U. K.

58. As already mentioned above, the composition of our import trade has been gradually changing. Articles like cotton manufactures, iron and steel, cement, sugar, silk, toilet requisites, boots and shoes, matches, soap, umbrellas, and bangles have decreased in their imports. But raw cotton, artificial silk, bobbins, vehicles, paper, dyes, chemicals, oils and rubber have been increasing. This change rather reflects the change which has been coming over the country. With the growth of the textile industry, and its increasing attention to finer and better type of goods, there has been a larger import of raw cotton, chemicals, dyes and artificial silk. Similarly, the development of iron, steel, cement, sugar, paper and soap industries has affected the imports in the respective commodities, and now only fabricated iron and steel, special types of cement, and costlier types of toilet requisites are coming in. This development again has meant an increase in the imports of machinery, belting, and some of the oils. The growth of machine shops all over the conntry could similarly explain the increase in the imports of various instruments and equipments, while the increase in the imports of rubber, raw and manufactured, and motor vehicles requires no explanation. It could, therefore, be safely stated that the present constituents of our import trade indicate a shift from goods which used to be final and meant for the consumers to primary or intermediate goods, which could be worked upon in the country. (Vide Appendix II B, para 8).

59. If our imports were analysed from the above point of view, it will be found that half the imports are final

products and are meant for the fixed equipment of the industry. The rest consists of intermediate products which serve either as raw materials or stores for the various industries in the country. In the consumers articles, the bulk is accounted for by various types of textile goods, cotton, woollen and silk and household products like fuels, medicines, provisions, liquors, hardware, glassware and cars. The intermediate products consist of metals and ores, paints and varnishes, cotton, silk and yarn, dyes, chemicals, packing and printing paper, paper making and leather making materials, cables, oil seeds, tea chests and fuel. As already mentioned, the imports of machinery are to the extent of about 15 crores. (Vide Appendix II B, para 9)

60. We suggest the appointment of a special committee whose duty it would be to examine these articles and classify them according to as they are near or far away from final consumption. In the meanwhile, howevar, we suggest that imports of goods which are meant for final consumption should be restricted as far as possible. We would, for instance, cite the cases of provisions, glassware, liquors, toilet requisites, etc. where a restriction will not impose a great privation on the public. On the other hand, articles like kerosene, spices which are consumed by the general masses and which form the necessity of life will have to be continued. Similarly, in the case of intermediate goods, these goods must be replaced, wherever possible, by goods made in the country even though they be inferior in finish and lasting qualities. Even in the case of machinery which would normally be considered indispensable in the present circumstances of the country, we feel that quite a small part would be consisting of spares which could be made inside the country. (Vide Appendix II B, paras 10 and 11).

61. In making the above suggestion regarding a restriction of the imports, we have been to a certain extent influenced by what we have stated above in respect of the future of our export policy. Exports will operate as the primary limit to the size of our imports, and since it appears

to us that we may have to limit the size of our exports, till we have been able to modify our economy to offer more suitable ones, we are naturally inclined towards a restriction of the imports. But as already stated, we cannot permit this to be the overriding consideration. We have, however, another consideration also in making the above suggestion for restricting the imports. The country will have to make a stupendous effort to increase the present national income, and such an effort will necessarily involve a considerably large outlay in capital equipment. This could be built up only, if a part of the current consumption is saved and the rest spent in accordance with the plan of development. To the extent that our current income is spent on imports, which are non-essential, it serves neither of the above ends and should be diverted to other fields. (Vide Appendix II B, paras 12 and 13).

62. We are aware that any indiscriminate application of the suggestion we have made, would impose a great deal of hardship both on the consumer, and the industries. It was to avoid this that we stated that the actual selection of the commodities should be left to a committee of *experts*. (Vide Appendix II B, para 14).

63. It is obvious that a scheme of restriction will tend to foster the growth of industries inside the country. The extent to which that growth should be permitted within the scope of our present policy of protection, the sequence of importance in which the various industries should be permitted to grow, and other matters connected with such a development, are outside our scope. But we may mention two points which follow from the general line of inquiry we have pursued. In the first place, some sort of discrimination in permitting various industries to grow up will have to be continued, as otherwise, it would mean a waste of our current resources. Secondly, in the initial stages, we will have to be conservative regarding the relative position of the industry and agriculture. Since the industrial section is always more vocal, there is a danger that the growth of new industries

may be utilised to increase the disparity, which already exists between the industrial and agricultural prices and incomes. It will be perhaps more necessary to guard against this, as any change in our present scheme of exports is likely to depress the agricultural prices. (Vide Appendix II B, para 15).

64. As we have already mentioned, we have asked Prof. Anjaria to prepare a note on the balance of payment, which we attach herewith. (Vide Appendix III A). Regarding its main constituents, the export and import trade, we have already mentioned our observations in the previous paragraphs. It would be clear from them that while we envisage the possibility of a reduction in our export, we also recommend a restriction of our imports. We feel that as things are, it would be definitely easier to arrange for an immediate restriction of the imports. On the other hand, the decrease in exports will be more gradual, and if the plan progresses properly, there might be even no decrease at all. We do not, therefore, feel that what we have recommended above will in any way adversely affect the merchandise balance of trade for some period to come. If this be so, then our existing obligations in respect of foreign payment would be sufficiently provided.

65. We have, however, also to consider the question of the import and export of precious metals. If we begin to import precious metals at the rate at which we used to do, we will certainly need a larger surplus of the export trade. But if we feel that the non-essential imports of merchandise should be restricted so as to enable us to save our current income for other purposes, much less can we subscribe to an import of Gold or Silver for private purposes. In stating this we are aware that in our country, gold and silver constitute reserves, which are useful for a rainy day. But we are afraid, if we want to pursue a policy of rapid industrialisation, we cannot permit our savings to take a form in which they lie idle, and which would not come under the control of the planning authority. For the

same reason we are even prepared to accommodate ourselves to a regulation of our exports and imports of gold and *silver by a suitably constituted authority.*

66. We do not, therefore, anticipate any difficulty regarding meeting our home charges and other obligations. Even regarding imports of machinery which are likely to be heavy in the future, we are not convinced that it will cause a great strain on our balance of payaments. As pointed out above, our plans for industrialisation for the immediate future will be in the direction of replacing those consumption goods and intermediate articles, which are being imported at present. Since the value of these articles does not exceed about Rs. 100 crores, our rough experience shows that the total investment required for building up industries to supply these articles could not be more than an equal amount. Consequently, Rs. 80 crores, would be the approximate value of machinery which we are likely to require and which we are likely to import from other countries. Even if this industrialisation were to be spread over five years, the strain on the balance of payments would not be something which we could not meet.

67. Even then as our plans for industrialisation take more mature shape it may happen that the balance of trade may become unfavourable to us. Should that contingency occur, we would recommend the consideration of the adoption of a separate currency standard for our home purposes, as we would like that the internal economy of the country is left completely undisturbed.

XI

68. In the preceding we have surveyed the entire trade of the country, against a background of what we would consider as the essential and ultimate purpose of all trade namely an increase in the real income of the people. So far as the short period is concerned, we have dealt with the quantity,

direction and difficulties of the internal and external trade. So far as the long period is concerned, we have tried *to indicate the directions in which our trade should tend in future.* But the subject with which we have dealt is essentially fluid, and it has not been possible to keep these two aspects separate from each other. Besides this, our chief difficulty has been that we have no precise idea of the form and the intent our economic organisation is going to assume in future. In the absence of this, it has been difficult for us to visualize the types of surpluses which are likely to emerge, the persons to whom and parts of the country where they are likely to come, and the actual goods in which they will find expression. Since these are the subject matters of trade, and since we have not been able to forsee them, it is possible that our views might have been coloured more by the existing state of things than the future possibilities. In that case, what we have stated above, would hold good at least during the transitional period.

SUMMARY OF RECOMMENDATIONS OF THE SUB-COMMITTEE ON TRADE

We summarise our conclusions and recommendations as follows:—

1. The main purpose of the development of our trade should be to bring about an increase in the real income of our people, so that they are able to enjoy a higher standard of living. This involves the development of a well-balanced economy for the country.
2. Accordingly, any consideration of our trade must relate itself on the one hand to the problems of needs, actual and potential, and on the other, to the problems of the existing economic relationships.
3. The internal trade of our country is in the neighbourhood of Rs. 7,000 crores, and is consequently much larger than the External Trade, which is in the neighbourhood of Rs. 350 crores. As such it deserves the greatest consideration from any planning authority. Besides this, the Internal Trade is also more amenable to control than the External and is likely to grow in importance as any plans for the

reorganisation of the country mature.

4. *On account of the natural configuration of the country, we have excellent distribution of agricultural, mineral and other resources over the various parts of the country. That gives us a great scope not only for a large Inter-Provincial Trade, but also for development of various plans on a regional basis.*
5. On account of the same, the various parts of the country are highly inter-dependent on each other for their raw materials and food stuffs. Therefore, in any plan of the economic re-organisation of the country, we must think in terms of the country as one economic unit.
6. Since various administrative authorities, including Provincial Governments, will not have sufficient knowledge or data to realise the vast repercussions of any local policies, fiscal or legislative, it is necessary that we must have an Inter-Provincial body to watch and co-ordinate the economic programmes of various provincial or local units.
7. The existing machinery for the distribution of our trade does not seem to be large or costly for the type of work it is expected to do. The faults from which it suffers are more due to the shortcomings of our economic system in general.
8. For a better distribution of our production, the goods should be graded and standardised. Therefore, wherever possible Committees of Experts belonging to particular trade should be immediately appointed to grade and standardise the products in their own trades. Warehousing facilities should be provided by provincial and local authorities.
9. It is neither necessary nor opportune to nationalise the distributive services at this stage. The present organisation would be rendered harmless automatically as the plan develops in different directions.

10. An immediate attempt should be made to collect and collate the statistics relating to the *Internal Trade.*

11. It is possible for us to improve the distribution of the Export of Raw Cotton, Linseed, Hides and Skins among the different markets. But so far as the other commodities of our exports are concerned, such an improvement is not possible as in some cases the markets are governed by factors other than purely commercial and in others we are practically monopolising the existing markets.

12. Looking to the present commodities of our export, it is not possible to increase the total exports of any commodities except Raw Cotton and Linseed.

13. Due to the fact that other countries are thinking in terms of National Self-Sufficiency or stabilisation of their internal economy and also due to the fact that colonies are likely to be more intensely exploited in future, we are inclined to believe that the scope for the development of our export trade in the existing commodities is likely to be narrowed down.

14. The question of Commercial Treaties must be looked at from the point of view of the benefits which we are likely to get, as against the concessions which we may be called upon to give to others. Considering these and also considering the present distribution of our Export Trade, we feel that Commercial Treaties will have no positive value in increasing our trade. On the whole, we feel that we should make use of Commercial Treaties for the removal of any handicaps which might have been placed on our exports in different markets rather than securing special advantages against similar goods from other countries.

15. We should immediately concentrate on building up the various services like shipping, banking, ware-

housing of our exports, etc. which are at present handled by foreign houses.

16. *We should make an earnest endeavour to build up* our trade with countries like Persia, Arabia, Egypt, East Africa and others which are far nearer our coast.

17. We feel that our existing export trade is more a matter of historical circumstances rather than pure economic advantages. Accordingly, we suggest a detailed investigation in the economics of production of various articles of export and see whether the articles that we export at present are in fact exportable consistent with an all round well-being of our country. In case we find that the present constituents of our export trade need a revision in the light of this investigation, we suggest that such a revision be undertaken.

18. The present constituents of our Import Trade show that there is a shift from the import of articles which are meant for final consumption to intermediate goods which are meant for industrial purposes. This is due to the growth of industries, like textiles, steel, paper, etc., during recent years. Consumer's goods which are still being imported are in many cases in the nature of luxuries.

19. A Committee of Experts should be appointed to go over our present imports and to suggest restrictions of those imports which are either in the nature of luxuries or which could be manufactured in the country.

20. In view of the fact that we are likely to require large savings for the purpose of a rapid industrialisation, our current income should be spent only on those articles which will be helpful in this direction.

21. We have a surplus balance of trade which is sufficient to meet our home charges and other obligations. While we anticipate that with a

restriction of imports this may be able to bear the strain of larger imports of machinery, etc. for the purpose of a rapid industrialisation of the country, we would suggest that if necessary, we should be prepared to change our views regarding the export and import of Precious Metals.

22. If there is any contingency of an adverse balance of trade in the interest of Internal Economy, the question of a separate monetary standard for external purposes should be considered.

APPENDIX I

INTERNAL TRADE.

CHAPTER I

Importance and Estimate of Internal Trade.

That the internal trade of India is a matter of vital concern to her economic life and promises to be one of growing importance in the political and economic evolution of the country, has long come to be universally recognised by those who have had any occasion to give serious attention to the subject. It is needless, therefore, to dilate on this aspect of the question at the present stage beyond stressing certain fundamental facts which invest the subject with an importance and significance of its own. From the economic point of view the conditions in India are closely analogous to those of the U. S. A., and in view of the excellent natural distribution of agricultural, mineral and forest resources in this country and her population of teeming millions representing an expanding reservoir of potential consuming capacity we feel it necessary to reiterate the proposition, at least by way of explaining our attitude towards the question as a whole, that India is in a very happy position in the matter of fostering the development of her internal trade on a planned and scientific basis.

2. Unfortunately, however, we have yet very imperfect notions about the extent and value of this trade. The official statistics available in this regard are, to say the least, extremely meagre. They are limited in scope not only in regard to the number of commodities for which figures are compiled or the regions between which the movements of goods are recorded, but also in regard to the transport agencies by which such goods are moved from place to place. The nature and extent of such statistics are explained in the Annexure to this chapter. The special difficulty which confronts us here in India as compared with other progressive countries of the world, arises from the fact that figures regarding Bank clearances do not provide us with a dependable index of either the value or the magnitude of the internal trade of the country. The sphere of influence of the commercial banks is yet confined to important cities and towns and even there, to particular sections of businessmen, and only a portion of our internal trade comes within the purview of the operations of such banks. Nor can we regard our Railway Statistics as a more reliable barometer for the purpose. For one thing, the volume of goods carried by our Railways is a variable quantum affected as much by the prevailing conditions of trade as by the growing competition of road-motor services. And then we are absolutely in the dark as to the proportion which the railway borne traffic bears to the total volume of our internal trade accounted for by all kinds of transport agencies including bullock carts and country boats.

3. We feel, therefore, constrained to admit that in the circumstances stated in the foregoing paragraph the preparation of a comprehensive estimate of India's internal trade must rely, to some extent, on private trade reports and intelligent surmises, corroborated, as far as possible, by indirect checking in the light of such statistics as we do possess. Despite the imperfections which such a procedure would necessarily involve, we consider the task of preparing such an estimate to be justified in order at least to raise the

matter definitely above the level of pure conjecture. For this purpose, we must make the most of such statistics as are available.

4. Our attention has in this connection been drawn to the estimate attempted some years ago by Prof. K. T. Shah and set forth in detail in his treatise entitled 'Trade, Tariffs and Transport in India (1923)'. The method followed by him is essentially based on statistics of production, determination of the quantity actually put up to sale, addition to the value thereof of the amount of revenues paid to Government and then assumption of twice the total value thus obtained as the worth of our internal trade.* On this basis Prof. Shah estimates India's internal trade in 1921-22 at Rs. 2,500 crores.

* *The gist of the calculation for the year 1921-22 is set forth by Prof. Shah himself as follows :*

" The total agricultural produce is thus valued at 806 crores in 1913-14 and 1368 crores in 1921-22. Add to this 100 crores of gross produce in industry and mining in 1921-22; and we get a total gross income or production of the people of India in 1913-14 at 850 crores in round figures, and 1470 crores also in round figures, for 1921-22. If we regard prices in 1921-22 to be 50 percent, above 1913-14 level, the real value of the production in India cannot be taken at more than 1000 crores per annum at the present time. *Even at the inflated figure we get an income per head of Rs. 46/- per annum in the whole of the Indian Empire. We are, indeed, fully aware of the rudimentary character of this estimate, which is the roughest we could make, But it would not be very far from the most accurate figure, calculated under the most rigid method of computing national wealth It is out of this figure that the 250 crores of Government revenues and 300 crores of imports of foreign goods are paid for—leaving only 920 crores (from 1921-22 figure) for all the human needs, on the lowest scale of the Indian peoples. The internal trade would thus consist of this remainder of roughly a thousand crores; and counting that amount once as imports and once as*

5. While the above is about the only comprehensive estimate that still holds the field, it is obvious that it needs to be revised and brought up-to-date taking due account of the changes which have taken place during the last two decades. Particular attention may, in this connection, be drawn to the fact that since the above estimate was prepared by Prof. K. T. Shah, the industrial development of the country has proceeded by rapid strides and that one important effect of accelerated pace of industrialisation has been to give a special impetus to the internal trade of the country. The establishment of an industry means at least a two-fold movement of goods, once of the raw materials from their respective sources of supply to the manufacturing centres and again from the factories to the consuming markets spread all over the country. The acreage under agricultural crops, particularly linseed, tobacco, groundnuts and sugarcane has also increased appreciably since 1919 20, and during the same period the new construction and expansion of motorable roads has widened the facilities for exchange of goods between different parts of the country. The natural presumption, therefore, is that during the last two decades the volume of the internal trade of India has exceeded the estimate of Prof. Shah for 1920-21, the exact increase in value being of course, a matter involving the further consideration of changes in the price level. Even for 1920-21 Prof. Shah's figure was admittedly an under-estimate as it was based on the assumption of only a two-fold transfer of all marketable goods produced within the country, and also as it entirely left out of account the very substantial proportion of our internal trade accounted for by imported goods.

6. As for the magnitude of India's internal trade as

exports—as is done by the official system of computing the Inland Trade—we get a total inland trade of 2000 crores per annum. If we further add the figure of the public revenues, we might quite possibly get a figure of 2,500 crores". (Vide ara 121).

is stands to-day, we have received a note from one of us - Mr. J. N. Sen Gupta - as to the value of the internal trade of British India, exclnsive of Burma and Indian States. This is set forth as an annexure to this chapter. The methed of computation followed in this note is based on the marketable. surplus of variyus groups of articles produced within the country multiplied by varying frequencies of exchange as suggested by the nature of the commodities and the addition to the value thus obtained of the value of the internal trade accounted for by imported foreign goods according to the same principle of frequency of transfer applied to them. Mr. Sen Gupta's estimate is based upon a study of the very recent, if not up-to-date, statistical position of our agricultural, forest and mineral production supplemented by an estimated value of the trade in livestock and animal products. We have no doubt that Mr. Sen Gupta's Note deserves a careful study in the interest of further investigations into the subject in the light of developments in internal trade since 1920–21.

7. We consider it desirable at this stage to say a word or two about the basis of Mr. Sen Gupta's calculations. His estimate has been worked out on the basis of the average annual values of production for the quinquennium 1925–29. It is true that an estimate of our internal trade position based on the statistics of produc tion for this quinquennium cannot be accepted as an exact picture of our internal trade today. There are a few major industries producing goods for mass consumption such as sugar, iron and steel, and cement, whose development has been very rapid during the years following the said quinquennium, and any up-to-date estimate of our internal trade must take some account of the augmented volume of indigenous production. The selection of this quinquennium can, however, be justified in so far as it is, on the whole, free from the influence of slums and booms, and may with a fair degree of accuracy, be taken to represent the 'Normal state' of our agricultural and manufacturing in-

dustries.* Another point to be noted is that Mr. Sen Gupta has calculated the value of imports from the Indian States into British India on the basis of the River and Rail borne trade statistics which give only the weight of goods so moved and also the number of animals. The values have been worked out on the basis of wholesale prices in the case of goods, and on certain average prices in the case of animals. This operation involves considerable difficulties inherent in such calculations, and it is hardly necessary to emphasise the need for caution in accepting these figures as absolutely reliable.

8. The estimate of Mr. Sen Gupta suggests a total value of about Rs. 6 thousand crores for the internal trade of British India alone. For the whole of India inclusive of the States, this should according to the method of calculation adopted, be increased by at least one thousand crores of rupees. This is, indeed, an impressive figure and whether we accept this or a lower figure, a mean between this estimate and that of Prof. K. T. Shah, we have enough statistical evidence to show that our internal trade, even in its present state of imperfect development, is many times more important than our foreign trade, the value of which at different periods is shown in the following table;

(in lakhs of Rs.)

	Pre-War average	War average	Post-War average	1936-37	1937-38	1938-39
Value of Imports (including Treasure and Government stores.)	198,87	198,32	320,21	160,48	181,94	158,75
Value of Exports (including Treasure and Government stores.)	232,55	253,13	319,64	222,41	209,53	185,15
Total Sea-borne trade.	431,42	431,45	630,85	389,89	391,47	343,90

* *See foot note on page 107 for this,*

9. The importance of our internal trade is, indeed, thrown into bolder* relief by a comparative assessment of our foreign trade vis-a-vis some other vast countries with large agricultural interests, like Canada and the U. S. A. A few years ago a comparative study of this kind was made by Sir M. Visvesvaraya and the result of his investigations relating particularly to the year 1929-30 (i. e. the year immediately preceding the depression) and effectively revealing the position where India stands, is quoted here:

"Thirty years ago, India's trade was over twice that of Canada and over three times that of Japan; now it is less than that of either of those countries. When the European nations were engaged in the world war, the U. S. A., Japan and Canada took the opportunity to develop their resources. During 1929-30 the total trade of Canada with less than 3 percent of India's population was 15 percent more that of than India; whereas in the pre-war year 1913-14 India's total trade was 63 percent better than Canada's. The *per capita* trade, during the same war period, increased in Canada from about Rs. 44 to 105 and in the U. S. A. from Rs. 132 to Rs. 276, while that in India practically remained stationary at about Rs. 18/-" (Vide Planned Economy for India—pages 135-36).

* *Cf. Dr. V. K. R. V. Rao's argument along these lines in his "Essay on India's National Income" where, he chooses this quinquennium for a calculation of India's national income.*

CHAPTER II

Special Factors Fortering India's Internal Trade.

The importance of the internal trade in India's economy is by no means to be regarded as a mere historical accident. On the contrary it is to be attributed to certain favourable factors of a distinctive character and abiding significance which tend to show that our internal trade, important as it is today, is bound to develop further in future. In the first place, the population of a sub-continent like India is itself a conducive factor of first rate importance in so far as the vast consuming capacity represented by it provides a tremendous momentum to the exchange of goods as between different parts of the country not only for commodities produced by herself but also for articles of foreign manufacture which can find their way into India only through a few natural inlets, about a dozen ports, comprising both big and small, and some frontier routes which are fewer still. Secondly, and this is what ensures a steady expansion of the volume of exchange of indigenous goods, there is an excellent geographical distribution of agricultural crops, forest products, mineral resources and allied industries, among different parts of the country widely separated from one another; which

means that our internal trade must go on increasing as the above natural resources and the indigenous industries will be more intensively developed. Thirdly, the progressive expansion of the internal trade of the country is also assured by the fact that the peculiar triangular shape of India with a forbidding mountainous base and surrounded by oceans on all other sides not only restricts the scope and opportunities of trans-border trade but also constitutes a special advantage and inducement for developing the internal trade of the country. Nature has favoured India with many thousand miles of navigable coastal waters connecting the extreme west with the extreme east and covering the entire south, and thus offers very good prospects of cheap transport facilities, which mean so much to the movement of goods as between different parts of a vast country of her magnitude. The implications of such favourable natural factors are examined at some length in the following paragraphs.

Distribution Of Natural Resources And Industries :

2. In regard to the natural resources of the country the position may be reviewed separately in connection with our agricultural crops, forest wealth and mineral products, as the articles belonging to these three categories account for a considerable proportion of our internal trade. The volume of such trade is, of course, materially increased by the purchase and sale of animals and animal products, but as indicated by us in another context, these do not present any characteristic features of regional distribution except perhaps for sheep and goats and wool for which Rajputana and the adjoining territories in north-west India would appear to have special advantages as a sheep and goat rearing Zone. These would not, therefore, call for a special analytical investigation in scrutiny of the distribution of the natural resources of the country.

(i) Agricultural Crops:

3. The distribution of agricultural crops, among different parts of India constitutes, indeed, a subject of great interest from the point of view of our internal trade. For purposes of ready reference an abstract from the Agricultural Statistics of British India (1935-36) showing the acreage under different crops and the distribution thereof among the major producing provinces is appended hereto (Vide Annexure I). In considering the bearing of this distribution on our internal trade, we may classify the crops under two categories as follows, according as they enter into consumption, wholly or partially, within the country, or are industrial raw materials to be consumed by indigenous industries or exported abroad.

1. CONSUMPTION CROPS:

I. (i) Foodgrains (rice, wheat, barley, jowar, bajra, ragi,)
   (ii) Oilseeds
      (a) Seasamum
      (b) Rape and mustard
      (c) Groundnut
      (d) Cocoanut.
   (iii) Tea
   (iv) Coffee
   (v) Tobacco.

II. Crops used as industrial raw material:-
   (i) Oilseeds
      (a) Linseed
      (b) Castor
   (ii) Fibres
      (a) Cotton
      (b) Jute
   (iii) Sugarcane.

4. The importance of the above crops as affecting our internal trade is reflected to some extent in the following table showing the percentage proportions of the exports of certain principal crops to total production*:—

Crops.	Pre-War average	War average	Post-War average	1936-37	1937-38
Rice	9	5	5	0.8	0.9
Wheat	14	9	3	2.4	4.3
Tea	96	89	95	77.4	77.8
Cotton, raw	56	51	61	66.9	44.3
@Jute, raw	51	31	48	47.8	48.7
Linseed	73	63	59	70.5	49.7
Rape & Mustard	23	8	19	4.3	3.4
Seasamum	25	8	6	4.2	2.1
Groundnuts	35	12	19	17.3	18.9

5. The above table makes certain interesting revelations: first that the most important foodgrains of India viz., rice and wheat are almost entirely consumed within the country, only a very small fraction being exported abroad; secondly, that tea and jute are mostly exported and comparatively speaking do not occupy an important position in our internal trade; thirdly, that of the oil-seeds, the production is very largely dependent on internal trade except in the case of linseed and groundnuts for which also the internal trade is steadily gaining in importance; and lastly, that for cotton of which about half the production is shipped abroad, the prospects of the export trade are liable to be adversely affected on account of certain possible developments abroad. In this connection a reference may also be made to the characteristic features of the other three important crops viz. sugarcane, coffee and tobacco, in their bearing on the

* *Vide Review of the Trade of India 1937-38 Page 237.*

@ *The rest of the jute crops also is exported abroad in the form of manufactured goods; the domestic consumption of raw and manufactured jute is estimated at about 10%.*

internal trade of the country. The output of sugarcane is in its entirety consumed within the country, but being a perishable crop, its movement has to be restricted within a limited range of the growing area. It does not, therefore, occupy a position of importance from the point of view of movement commensurate with the importance in the internal trade of the country of the other two crops. While in the case of tobacco about the entire supply until recently was consumed in India and largely moved from important areas of production, recent years have witnessed considerable exports of the same. Coffee promises to figure prominently in our future internal trade, the present proportion of our domestic consumption to be estimated at about one-third of the total production of the crop.

6. Along with an estimation of our local needs and the support given by the same to our internal trade, the regional distribution of the important crops indicating necessary movements over long distances has also to be noted. This is shown in Table I appended at the end of this chapter. It appears from that table that the peculiar regional distribution of the agricultural crops in India, even of those which are used mostly for local consumption, makes the relation of the different areas of the country *inter se* one of marked interdependence which is manifested through the mutual exchange of their surplus production of such crops in large quantities. The volume of internal trade represented by such exchange of surplus crops may, of course, be affected to some extent, by the forward agricultural policy recently initiated by particular provincial governments and their efforts to grow new crops hitherto imported from outside, but there is no reason to apprehend that our internal trade would suffer any serious setback on this score. Even if the new experiments should prove successful the results in any case are bound to be very limited and we may confidently hope that any loss to our internal trade entailed thereby would be more than compensated by the introduction of new items into such trade or the augmentation of the volume of

exchange in particular lines under facilities provided by improved means of transport in future.

(ii) Forest Products

7. As in the case of agricultural crops, our internal trade has been receiving, and is likely to receive in future as well, a valuable and continued support from a typical regional distribution of the forest wealth of the country among several distinct zones. Each of these zones commands a marketing sphere of its own which has developed almost by a process of natural selection. A scientific description of these zones and their respective marketing spheres is contained in E. A. Smythies' book "India's Forest Wealth" (1925 Edition—pages 23-25). India may conveniently be divided into eight economic zones, based chiefly on the markets or centres of consumption, as follows :—

Market	Province	Forest types and regions * (Troup's classification)
1. Punjab, Rajputana & Frontier tracts.	Punjab, Kashmir, N. W. F. P., and Baluchistan.	Western Himalaya and Kashmir Trans-Indus North-Western dry region.
2. Upper Gangetic Plain	United Provinces Nepal	Western Himalaya (sub-montane) Oudh (Gangetic Plain) Bundelkhand.
3. Lower Gangetic Plain, Calcutta and export	Assam Bengal	Eastern Himalaya, Sunderbans, Assam, Chittagong & Arakan.
4. Central India & Calcutta	Central India States & Orissa, Central Provinces.	Central India.

* *Vide his "Silviculture of Indian Trees"*

Market	Province	Forest types and regions (Troup's classification).
5. Bombay, the Deccan and export.	Bombay Presy., parts of Central India States, Baroda, Gujrat, and West Coast.	West coast region. Central India.
6. Madras, South India & export.	Parts of Central India, Madras, Mysore, Coorg, & South Indian States.	Deccan & Karnatak. Central India region East coast.
7. Burma & export.	Burma.	Burma..
8. Calcutta & export.	Andamans.	Andamans.

The distribution of India's forest wealth as indicated above is thus a further factor making for extension of internal trade.

(iii) Mineral Products

8. In regard to mineral products also a natural distribution of the most important deposits among just a few provinces is equally pronounced, and this must be regarded as a permanent contributory factor in the development and furtherance of the country's internal trade. The provinces which figure prominently in connection with our mining and mineral products are specifically mentioned in the Annual Report of the Chief Inspector of Mines. The following abstract prepared from a statistical table appended to the Chief Inspector's Report for the year 1938 clearly reveals the nature of the inter-dependence of different parts of the country in respect of the mineral products.

Statistics of important Mineral and Mining Products.
In British India *

Products	Province		Output for 1938 tons
I. Coal	Assam		2,67,300
	Baluchistan		14,388
	Bengal		77,45,372
	Bihar		1,53,62,604
	Central Provinces		16,58,626
	Orissa		44,425
	Punjab		1,84,028
		Total	2,52,76,743
II. Iron Ore	Bihar		14,21,090
	Total for Br. India		14,21,090
III. Manganese Ore	Bihar		24,469
	Bombay		61,598
	Central Provinces		6,46,465
	Madras		33,809
		Total	7,66,341
IV. Chromite Ore	Baluchistan		21,892
	Bihar		5,194
		Total	27,086
V. Copper Ore	Bihar		2,88,076
	Total for Br. India		2,88,076 Cwts.
VI. Mica	Bihar		84,235
	Madras		22,916
	Rajputana		1,684
		Total	1,08,835
VII. Magnesite	Madras		23,052
		Total	23,052 tons.

* *See foot note on page 117 for this.*

Products	Province		Output for 1938 tons
VIII. Steatite	Bihar		692
	C. P.		1,534
	Madras		32
	U. P.		39
		Total	2,297
IX. Slate	Bihar		820
	Punjab		6,913
		Total	7,733
X. Felspar	Rajputana		605
		Total for Br. India:	605
XI. Limestone	Bihar		6,13,138
	C. P.		5,34,254
	Madras		1,72,430
	Punjab		2,62,236
		Total	15,82,058
XII. Sandstone	Bihar		18,612
		Total for Br. India:	18,612
XIII. Fireclay	Bengal		9,884
	Bihar		8,871
	C. P.		27,652
		Total	47,407
XIV. China Clay	Bihar		7,493
	C. P,		250
	Delhi		3,264
		Total	11,007
XV. Gypsum	Madras		9,356
	Punjab		13,886
		Total	23,242
XVI. Bauxite	C. P.		10,134
		Total	10,134

(IV) Industry:

9. The cheapest supply of particular varieties of agricultural raw materials, minerals and forest products in their natural distinctive zones has had a consequential effect on the geographical distribution of India's principal industries, as the following table will show :—

Industry:	**Principal Centres:**
Cotton Textile	Bombay
Woolen Goods	Punjab & U. P.
Silk	Bengal, Assam & Mysore
Jute Goods	Bengal
Salt	Bombay and Punjab
Sugar	U. P. & Bihar
Iron & Steel	Bihar and Bengal
Coffee	Madras
Tea	Bengal and Assam
Chemicals	Bombay & Bengal
Tanning	Madras & U. P.
Cement	Bihar, U. P. & Punjab
Paper	Bengal

10. Among the industries mentioned in the foregoing paragraph only tea and jute may be regarded as typical export industries, and tanning and coffee partly so. All the rest produce goods mainly for domestic consumption and in view of the fact of their location in a few select areas, while the market is practically spread all over the country, a vast and ever growing internal trade sustained by a progressive rise

* *In regard to Petroleum the following statistical details are set forth in "India's Mineral wealth" by J. C. Brown :*

Average annual production of Petroleum in India (inclusive of Burma) during 1929-32 - 307, 700, 745 (gals)

Share of—

Burma	...	81.4%.
Assam	...	15.5%.
Punjab	...	3.1%.

in the general standard of living is bound to follow as a natural consequence.

Advantages of Extensive Coastal Waters:

11. The insular position of India and the advantages possessed by her for having extensive coastal waters have already been referred to. In a way both of these operate as potent contributory factors in promoting internal trade of the country. The inter-dependence of different parts of India has, to a large extent, been forced on them by the fact that practically none of them has a foreign country in close proximity acting as a comparative source of supply in respect of materials available within the country. Things might have taken a different course if the country had a more extensive frontier. In a country of long distances like India, the exchange of goods between the areas situated in extreme east, west, north and south is undoubtedly facilitated, to a considerable extent by her natural geographical configuration. In this respect India provides a striking contrast with the position of a country like Switzerland or Czechoslovakia in Europe. It is true that the frontier trade now carried on by India with countries like Persia, Afghanistan, Central Asia, Turkestan, Tibet, Nepal, Sikkim and Bhutan is worth a good few crores of rupees, but the imports from these countries consisting mainly of rice and other foodgrains and oilseeds do dot involve any serious competition with the indigenous source of supply.

12. Apart from the negative advantage referred to in the foregoing paragraph, the extensive range of India's coastal waters and their navigability are to be regarded as positive factors, which are particularly conducive to the development of her internal trade. Exclusive of the maritime States, these coastal waters connect so many as five provinces of British India, such as Sind, Bombay, Madras, Orissa and Bengal, each separated from the rest by hundreds of miles;

and these waters also form a natural outlet, for a certain proportion of commodities produced or manufactured in some of the adjoining provinces, such as the Punjab Cotton and wheat, the C. P. cotton and Bihar coal. As many of the commodities exchanged between such provinces are bulky ones, and as inland navigation is practically confined to parts of the eastern provinces alone, it is impossible to overestimate the value of the coastal waters of India as offering facilities for cheap transport which is so essential to the development and sustenance of the internal trade of the country.

TABLE I. (Ref. para 6 above)

Crops:	**Important producing provinces in British India.**	**Remarks:**
Food-grains:		
Rice	Assam, *Bengal*, *Bihar*, C. P. & Berar, *Madras*. Orissa & U. P.	Bengal alone accounts for about 1/3 of the total acreage.
Wheat	*Bihar*, *Bombay*, C. P. & Berar, N. W. F. P., *Punjab*, Sind & U. P.	Punjab & U. P. together account for about 2/3 of the total acreage.
Barley	Bihar & *U. P.*	Bihar & U. P. together account for about 2/3 of the total acreage.
Jowar	*Bombay*, C. P. & Berar, *Madras* and U. P,	Bombay, C. P. & Madras account for more than 3/4 of the total acreage.
Bajra	Bombay, Madras, Punjab & U. P.	Almost evenly distributed among the four provinces.

Italics provinces are the most important.

Crops.	Important producing provinces in British India.	Remarks:
Ragi or Marua	Bihar, Bombay, *Madras*, Orissa and U. P,	Madras accounts for about 5% of the total acreage.
Maize	Bihar, Punjab & U. P,	U. P. accounts for about half of the total acreage.
Gram.	Bihar, C. P. & Berar, *Punjab* & U. P.	Punjab & U. P. account for more than 2/3 of the total acreage.
Oilseeds:		
Linseed	*Bihar* and *C. P. &* Berar.	The two provinces account for more than 5%.
Seasamum	C. P. & Berar, Madras and U. P.	Almost evenly distributed among the 3 provinces.
Rape and Mustard	Bengal, Bihar, Punjab and U. P.	Almost evenly distributed.
Groundnut	Bombay and *Madras*.	Madras accounts for more than 2/3 of the total acreage.
Cocoanut	Madras.	Madras accounts for more than 5/6 of the total.
Castor	Madras.	Madras accounts for more than two-thirds.
Fibres:		
Cotton	*Bombay*, C. P. & Berar, Madras and Punjab.	Bombay and C. P. account for more than 50%.
Jute	Assam, *Bengal* and Bihar.	Bengal accounts for more than 80%.

Crops:	Important producing provinces in British India.	Remarks:
Narcotics:		
Tea	*Assam*, Bengal & Madras.	Assam and Bengal accounts for more than 6/7.
Coffee	Coorg and Madras.	Almost the entire amount is grown in these two provinces.
Tobacco.	*Bengal*, Bihar, Bombay and Madras.	Bengal and Madras account for about 50%.
Miscellaneous		
Sugarcane	Bengal, Bihar & U. P.	U. P. accounts for more than 2/3 of the total acreage.

CHAPTER III

Growing Importance of Internal Trade in Future and its Problems.

While the natural factors discussed in the previous chapter are, for reasons already explained, specially conducive to the development of India's internal trade, the latter is calculated to gain a further stimulus from the latest tendencies of world trade towards a regulated and restricted flow of international commerce, and also from the operation of certain principles that must dominate the economic policy of India and of her autonomous provinces. A much fnrther expansion of our internal trade in future thus appears to be assured. It is difficult, however to foretell if the future expansion will be marked by a steady and uninterrupted progress. For the impetus given by the aforementioned stumulating factors may be thwarted, to some extent, by the operation of the regional plans of development initiated with a view to conferring the benefits of a balanced economic structure on the underdeveloped areas of the country. As a correct appraisal of the future prospects of our internal trade is possible only against the background of such conflicting forces, a closer investigation of them is made in the

following paragraphs with a view to reveal their real implications, relative importance and bearing on the internal trade of the country.

A. Restricted Scope of Foreign Trade.

2. The impetus which is likely to be given, in a rather indirect manner, by the gradual narrowing down of the channels of international trade, which is so much in evidence in recent years, is to be traced to the wave of economic nationalism that has entirely swept away the commercial world from its traditional faith in the orthodox doctrine of *laissez faire*. This movement, characterised by the imposition of a multitude of most ingeniously devised barriers against the free flow of goods between countries and comprising such devices as tariff concessions, permissible quotas and exchange control, is essentially based on the ideal of self-sufficiency and is well known to be a characteristic feature of post-war developments in world trade. Although the movement for economic nationalism was existent in some form or other even before 1914, it has been intensified, to a degree, during and after the depression years and did not show any signs of relaxation right up to the out-break of present hostilities in Europe.

3. The foreign trade of India has naturally been affected by the impact of this wave of economic nationalism. She has entered into trade agreements with U. K., Japan and Burma which had profound reactions on some of her agricultural and industrial interests. Apart from the question of merits of these three trade agreements, the necessity of negotiating commercial treaties with all countries, that are good customers of India, is now universally recognised as the *sine qua non* of maintaining India's position in the changed conditions of world trade, in which articles are made to move into pre-determined channels. Simultaneously with this recognition has been engendered the feeling that the prospects of our foreign

trade are now less reassuring than ever and that we have *to place our reliance more and more on the development* of the internal trade of the country for the sustenance *of our economic prosperity.*

4. We may also in this context raise the question whether the process of liquidation of the existing restrictions on foreign trade as typified by commercial treaties, preference duties etc., will continue after the termination of the present war, and lead to their logical conclusion viz. the restoration of a full-fledged free trade regime. Or, will the economic pressure of post-war reconstruction force the world again to revert to the same or even to more intensified schemes of economic nationalism? It is difficult, if not impossible, to predict the nature of the world economic order that will emerge from the present cataclysm. But there are reasons to believe that the restoration of peace will not be followed by any drastic relaxation of the existing trade barriers, and the doctrine of economic nationalism is bound to leave some legacy behind. The present restrictions have in many instances successfully fostered the development or transfer of new economic activities in new areas and countries and it is more than likely that the vested interests created in this manner will prove a serious hindrance to the revival of the *laiseez faire* policy of international trade. At any rate each of the countries will find itself confronted with a new situation in which the requirement of international trade will have to be adjusted to an entirely new scheme of international division of labour applied to the production of different kinds of goods. Presumably, the requirements of each country will be much more circumscribed than now except for a brief period of accentuated demand for such articles as may be required for reconstructional work, and this would mean that our internal trade will loom larger than ever in our future prospects of trade expansion.

Effect of accepted Economic Policies

5. A further check on the expansion of our foreign trade which will directly promote the internal movement of goods in future, will be entailed by the continued application of the policy of discriminating protection to which India is definitely committed and which in years to come is likely to have a more thorough and wider application. In this connection special attention need be drawn to the fact that the displacement of foreign goods by indigenous industries helped by the adoption of such a policy means more than a proportionate gain to our internal trade than what is lost to the foreign trade of the country, for, manufacture and sale of indigenous goods involve the movement of various raw materials from their respective sources of supply to the factories concerned and then of finished articles from the factories to consuming markets. During the initial stage of this development, of course, the shrinking in our imports on account of consumption of goods will be partially made up by larger imports of machinery and capital goods, but, eventually, a substantial fall in our imports is bound to follow. And with the progressive industrialisation of the country on a well-planned scientific basis and the inauguration of better and more extensive facilities for transport such as are envisaged by the Planning Committee, it is almost certain that in future our internal trade will expand by rapid strides.

Development programmes of Provinces

6. An effective impetus to our internal trade which is bound to grow in importance in future is likely to emanate from the development programmes which have been engaging the attention of the autonomous Provincial Governments in recent years and of which some have already been partially initiated. There is every possibility that when in future the programmes of various Provincial Governments will have

been carried out, either on pre-conceived lines or in modified forms, the resultant development of industries and agriculture will considerably augment the marketable surplus of such goods in many provinces. These surpluses will be distributed to those parts of the country where they would be needed and this will necessarily mean an accelerated movement of our internal traffic. Special mention may in this connection be made to the electrification schemes which for some time past have been engaging the serious attention of a number of Provincial Governments. The inauguration of such schemes must in due course give a tremendous impetus not only to the industrial developments of the provinces concerned but also to their agricultural development through extensive irrigation projects to be worked by electrical power; and the increased volume of production will be duly reflected in an expansion of our internal trade.

Dangers of uncoordinated regional Planning.

7. While the Provincial plans should through proper coordination, promote the developments of our internal trade these are apt to prove prejudicial to the cause, in case such plans are allowed to be dominated by the principle of self-sufficiency within the regional borders of each province. There are some very plausible grounds why the provinces in India may be attracted by such an ideal in her present economic conditions. In the first place, the development of certain industries in India in particular regions is considered to be more of the nature of a historical accident than rational selections of sites justified by their possessing the maximum differential advantages as against the areas which have hitherto provided the consuming markets. Secondly, in the the absence of any control over currency, customs, tariff and railway freight rates it is only natural that the Government in an under-developed province should concentrate their developmental programme primarily on those industries

which have already been tried with success in other parts of the country and for which equally good if not better prospects are found to be available within the province itself. Thirdly, it is within the competency of a Provincial Government to accord directly or indirectly a certain measure of effective assistance to industrial enterprises within their own jurisdiction. Fourthly, the Government in a province, are constantly under the pressure of an insistent public demand to do whatever they can to improve the economic condition of the people placed in their charge by helping the development of suitable industries. It is by no means unthinkable that the Provincial plans should in such circumstances be influenced by a sense of local patriotism in disregard of their possible reactions on our internal trade as a whole. While a redistribution of certain industries may be considered necessary and may indeed be inevitable in the light of latest investigations into the comparative advantages of different areas, so as to ensure the maximum productive efficiency of our industries against competition of foreign goods in India or in overseas consuming markets, the economic test is apt to be blurred by an undue emphasis on parochial interests; and the latter may lead to the adoption of discriminatory measures the consequences of which from the wider national standpoint, both economic and political, cannot be too much deplored.

8. It may be noted in this connection that the scope of such discriminatory action by Provincial Governments prejudicially affecting the internal trade of the country has been to a considerable extent restricted by Section 297 of the Government of India Act of 1935 which provides as follows :—

(1) No Provincial Legislature or Government shall—

(a) by virtue of the entry in the Provincial Legislative List relating to trade and commerce within the Province, or the entry in that list relating to the production, supply and distribution of commodities, have power

to pass any law or take any executive action prohibiting or restricting the entry into, or export from, the Province of goods of any class or description; or

(b) by virtue of anything in this Act have power to impose any tax, cess, toll or due which, as between goods manufactured or produced, discriminate in favour of the former, or which, in the case of goods manufactured or produced outside the Province, discriminates between goods manufactured or produced in the locality and similar goods manufactured or produced in another locality.

(2) Any law passed in contravention of this section shall, to the extent of the contravention, be invalid.

9. We fear, however, that restrictions imposed by statutory measures cannot always provide a fully effective safeguard against the dangers of an unhealthy inter-provincial competition. Our conclusion in this regard is based upon the unfortunate experience with which India was confronted even after the inauguration of the reforms in connection with the imposition of discriminatory excise duties by certain provincial Governments on the spirituous contents of alcoholic drugs and toilet goods. While a duty was charged on spirituous contents of such goods manufactured within the jurisdiction of the taxing Governments a higher duty was imposed on similar articles imported into their spheres of influence from other manufacturing provinces. The new experiment fraught with grave consequences was first started in 1934 by the Government of Bombay and their example was soon emulated by the Government of Madras in 1935. The imposition of such discriminatory duties was also under the contemplation of the Government of the Punjab but they refrained from taking any action in the matter. Eventually, these developments proved serious enough to engage the attention of the Government of India

and at their instance a conference was held in December 1937 of the representatives of various Provincial Government and also of interested Indian States with a view to devising suitable ways and means for avoiding the menace of inter-provincial excise warfare.

10. The constitutional implications of the afore-mentioned discriminatory excise duties were clearly set forth at the Conference in the preliminary statement made by Mr, (now Sir) A, H, Lloyd, on behalf of the Government of India and the same deserves to be carefully noted in an examination of the problem in its bearing on possible future developments. Mr. Lloyd explained the reason for the decision that the Conference should be confined to Government officials and the exclusion from discussion of certain broad issues of policy and also of any proposal which could not be adopted within the framework of the constitutional position as set forth in the Government of India Act, 1935. In particular, he observed that the constitution left it open both to the province of production and the province of consumption to tax liquor made in one and transferred to the other, so that the avoidance of double taxation must involve mutual agreement between the two governments; and, with reference to a question that had been raised as to the power of a provincial government to restrict imports from another province, he expressed the view that, whatever might be thought of the validity with reference to Section 297 of the Government of India Act, of a measure imposing such a restriction for the purpose of sheltering a purely local industry, there could be no doubt that it was lawful to impose restrictions on import designed to secure that spirituous preparations from other provinces are as effectively controlled and taxed as those made in the province.

11. It is reassuring to note, however, that the Excise Conference of December 1937 was successful in handling the problem in a constructive manner and securing the consent of the participating Governments to an agreement that none of them would impose any excise duties of the nature

previously described as of a discriminatory basis. A few extracts from the proceedings of the Conference containing some important resolutions on the subject are set forth in *Annexure I* to this chapter,

12. Even so, we do not consider that the decision arrived at the Excise Conference at Delhi provide a permanent and effective safeguard against all contingencies of an inter-provincial conflict in commercial activities, which, as we have already stressed, are bound to have very unfortunate reactions on a steady and progressive expansion of our internal trade. What we need for the purpose is a machinary that will enjoy the confidence of all Provinces and States, give continuous attention to problems and difficulties likely to involve a clash of interest between different regions, view things from a wide perspective and evolve constructive schemes reconciling regional claims with wider national interests and policy. It may be set on the model of either the Inter-State Commerce Commission of the United States of America or of the Inter-Provincial Council provided for in Section 135 of the Government of India Act as follows :—

" If at any time it appears to His Majesty upon consideration of representations addressed to him by the Governor-General that the public interests would be served by the establishment of Inter-Provincial Council charged with the duty of —

(a) inquiring into and advising upon disputes which may have arisen between Provinces;

(d) investigating and discussing subjects in which some or all of the Provinces, or the Federation and one or more of the Provinces, have a common interest; or

(c) making recommendations on any such subject and, in particular, recommendations for the better co-ordination of policy and action with respect to that subject,

it shall be lawful for His Majesty in Council to establish such a Council, and to define the nature of the duties to be performed by it and its organisation and procedure,

An order establishing any such Council may make provision for representatives of Indian States to participate in the work of the Council,"

We refrain from going into further details of the subject as a closer investigation of it will have to be made later.

13. Apart from the question of discrimination the prospects of our internal trade are likely to be profoundly affected by the general taxation policy that may be pursued, by the various Provincial Governments and local authorities. A reference, may, in this connection, be made to the varieties of provincial and local taxes on trade and their bearing on the internal movement of goods. A detailed investigation into this subject was made by the Indian Taxation Enquiry Committee (Vide Chapter XIII) and we need only recall a few of their important findings and recommendations such as would appear to hold good even in the present conditions. In making an expository enumeration of different kinds of such taxes which prevailed in some form or other almost throughout the country, ranging from patrol and terminal taxes to terminal tolls, municipal tolls, road tolls and ferry charges. The Taxation Enquiry Committee have dealt at length on the implications of each of these levies which, however, on their admission, do not yield to any scientific and precise assessment. "In the form in which they are levied in India", the Committee very significantly remarked, "they offend against all the canons of taxation. They are uncertain in their incidence. Their collection and the system of refunds which forms an essential feature of the octroi, puts the person paying the tax to a great amount of inconvenience. Where they are imposed upon the necessaries of life, as in India they do not proportion the burden to the means of the payer, and the expense of collection and the facilities for fraud are disproportionately large. With numerous bodies each independently taxing trade, it is impossible to know what are the burdens trade is really carrying, and quite impossible to ensure their being adjusted in any way fairly among different articles and goods." (Vide Para 398 of the Report).

14. Obviously, such a chaotic state of local taxation on trade and consequent hindrance to internal movement of goods can be brought under effective control only if the imposition of the sundry taxes are subjected to a well-conceived, scientific and planned scheme of co-ordination. This point is emphatically stressed in the conclusion reached by the Taxation Committee, quoted as follows: "It seems to the Committee a circumstance to be regretted that the Government of India have, to so large an extent, abandoned their control of a matter which is of paramount importance to the trade of the country. It seems to them to be a function inherent in the Imperial Government, as it is by their constitutions in the Federal Government of Australia and the United States of America, to protect inter-provincial traffic from obstruction by taxes imposed by subordinate authorities, whether these are provincial or local, and they would invite attention to the fact that in Germany the Imperial Government there, prevented the continuance of any such obstruction by legislation, prohibiting the imposition of local, taxation on certain classes of articles."

15. The Taxation Enquiry Committee recognised, however, that the various local levies had taken a firm root in the country and were not easily to be dispensed with. Accordingly they proposed that if these levies, or at least, some of them were to be continued, it should be incumbent on the Government, either by legislation or by executive order, to lay down certain governing principles on the lines stated as follows :—

(1) The rates of taxation should be low in all cases, and specially so, in the case of necessaries of life and articles that are subject to Imperial or Provincial taxation.

(2) In order to prevent the tax from developing into a transit duty, arrangements should be made for prompt refunds on exported goods, and for bonding goods intended for through transit.

(3) The staff should be properly paid and efficiently controlled by the official agency, with which the

elected representatives should have no power to interfere.

(4) *The terminal tax, which is the octroi without refunds,* should be levied on all packages with reference only to weight and without reference to contents. The rates should be kept low, and the Government of India, in the interests of inter-provincial traffic and the railways, should retain a full measure of control. In any case in which a terminal tax is substituted for an octroi, the tax should be fixed at such a rate that the total proceeds do not exceed the average revenue from octroi during the preceding three years.

(5) The tax should not be levied on goods imported and re-exported without break of bulk.

(6) Where it is thought legitimate to derive a municipal revenue from a single staple, e. g., from cotton ginning in a town, it is better to impose the tax direct on the output of the ginning mill.

(7) The levy on the tax on goods exported from a municipality should not be permitted, save in exceptional cases, where it is already in existence.

(8) Goods not leaving a railway yard, or only leaving port premises for a railway, and merely transhipped at the yard or port premises, should not be subject to any duty whatever.

16. Among all the provincial and local levies on trade, which have been discussed in the foregoing paragraphs, we consider it necessary to draw special attention to the implications of terminal and sales taxes for some very important reasons. The facility of the collection of these taxes, and the expectation of a substantial yield of revenue are calculated to offer a special attraction for them to our Provincial Governments, who are ever on the look-out for larger resources to finance their nation-building schemes. In their enthusiasm in this direction they are apt to overlook the fact that such taxation carried beyond a limit may have serious deleterious

effects on our internal trade. It needs to be realised that even the terminal tax which is growing in popularity is not really so innocuous as it may appear to be. The dangerous potentialities of this scheme of taxation are fully brought out in the observations made by the Indian Statutory Commission in Vol. II (para 242) of their Report.*

17. The scheme of taxing sales of goods, which is within the scope of Provincial taxation, has also identical implications in its bearing on internal trade. The practical advantages of such a scheme, from the point of view of taxation and revenue yields, are universally admitted, and presumably

* "*There are obvious objections to such taxes, both of a theoretical and practical nature. It is very desirable that there should be the greatest possible freedom of movement of goods in India in order to encourage specialised production, which is one of the most important ways in which the standard of living can be raised. It is, moreover, difficult to impose taxes of this kind without putting a heavy burden upon short distance traffic, and, indeed, it would be necessary to devise the scheme carefully in such a way as not to involve discrimination. But, despite these objections, there is considerable justification in an extensive but poor country such as India for following the precedent, set in many European countries and elsewhere, of levying what in effect would be an internal consumption tax. The tax is an easily collected one, and, even if it were levied at a very low rate, would be very productive of revenues, if generally applied. Some of the most serious disadvantages of the system could be avoided, if the imposition of the tax by the provinces were subject to the approval of the Government of India, which would examine the matter from the point of view of the general commerce and industry of India, and would be authorised to fix maximum rates and the conditions under which the tax should be imposed. Whether it should be levied on both incoming and outgoing traffic, or to avoid the suggestion that a particular province was imposing burdens on persons outside its own borders —on incoming traffic only, and what exception, if any, should be allowed, are matters for detailed consideration*"

it was the consideration of such advantages which, more than anything else, led the Taxation Enquiry Committee to commend this method of taxation. @

Such considerations have already led some of our Provincial Governments to impose a Sales tax on commodities, like petrol and cotton textiles, and their examples have been engaging the attention of Governments in other provinces, indicating the possibility of similar measures being undertaken on a more extensive scale in future.

18. We consider that these isolated schemes, not based on any comprehensive and scientific plan of taxation, are fraught with grave consequences, at least in respect of their

@ *The idea of a Sales tax is very old. It existed in various forms in the Middle Ages, and since the War has found a place in the taxation system of France, Belgium, Italy, Germany, and other countries, on the continent of Europe as well as in that of Canada. It was rejected in England, mainly because it was found impossible, in practice, to separate the value of services from those of goods in cases in which the two are combined. It may be explained here that the retail Sales Tax is essentially different from a universal turnover tax because it is imposed at one stage only, i. e., when the goods pass from the retail seller to the consumer, and is unlike the turnover tax in that it is not cumulative in its effect. While there are objections to a new tax of this kind levied universally throughout the country as a substitute for an octroi, it has certain advantages. The substitution of this tax would solve automatically the difficulties about entrepot trade, since no article, which was not sold in the town, should be liable to tax. Its incidence would be fairer in as much as, being on an* Ad Valoram *basis, its weight would be greater in the case of the more expensive articles consumed by the richer classes; manufacturers would be freed from taxation on the materials of their industry; collection would be less likely to be attended by fraud and harassment of the tax-payer; and lastly, no administrative control would be necessary to prevent it from developing into a transit duty".*

(vide para 406)

possible repercussions on the internal trade of the country, and we strongly urge that in formulating any taxation policy or scheme for the future, this aspect of the question should be carefully kept in view.

CHAPTER IV

Conditions as Revealed by Internal Trade Statistics

In the present chapter an attempt is made to interpret certain characteristic features of our internal trade as revealed by the River and Rail-borne trade statistics, either by themselves, or in correlation with figures available in other statistical publications, such as the Accounts relating to the Seaborne Trade and Navigation of British India, Accounts relating to the Coasting Trade of Maritime States, Indian Trade Journal, and the like. Their characteristic features are examined under several distinct heads relating respectively to—

I. Volume of the trade of each major trade block* for which river and rail-borne statistics are available;

II. Value of the trade of each major block in its bearing on the net economic position;

III. Origin of the trade in principal commodities;

IV. Movement of trade in principal commodities;

V. Deficiencies of particular blocks in respect of essential requirements;

* *See foot note on page 138.*

VI. Scanty development of internal trade in certain commodities.

2. Our interpretations, it will be noted, are as a rule based on the figures for the year 1938-39. We recognise that in regard to our interpretations we would be on a surer ground if these were reinforced by average figures* for a number of years. But we may point out that in showing the general character of the position, the statistics for 1938-39 would by themselves materially serve our purpose, not only because it was fairly a normal year, free from any extraordinary commercial developments, but also for the reason that the figures for this year help us to get an idea about the latest conditions of the trade.

I. Volume of Trade of each Major Block

3. The 'Accounts relating to the Inland (Rail and River-borne) Trade of India' published by the Department of Commercial Intelligence and Statistics set forth monthly figures of export from and Import into the aforementioned 22 blocks together with running totals of exports and imports for all the blocks taken together, month by month, upto the end of the financial year. The exports and imports comprise

* *There are 22 trade blocks for which river and rail-borne trade statistics are now compiled by the Department of Commercial Intelligence and statistics, and which comprise the following.*

(i) 12 blocks representing the British provinces viz, Assam, Bengal, Bihar, Orissa, the U. P. of Agra and Oudh, the Punjab, the N. W. F. P. Sind and British Baluchistan, the Central Provinces and Berar, Bombay and Madras.

(ii) 5 representing the principal towns, viz, Calcutta, Bombay, the Madras chief port, Madras ports (other than chief port) and Karachi, and

(iii) 5 representing Indian States, viz Rajputana, Central India, the Nizam's Territory, Mysore and Kashmir.

52 items shown under 30 heads, but do not include raw cotton, for which statistics are separately published by the Department, much on the same lines, though in greater detail. The one important difference between these two publications is that while the former is based on the financial year, the latter covers the period from the first September to the end of August. In both, the exports and imports are shown in quantities only, in terms of maunds, except in respect of "animals-livestock" which are shown in numbers. The March issue of the former gives annual total figures of exports from and imports into individual trade blocks in respect of each of the 52 items; while similar annual figures are set forth in the August issue of the Cotton Statistics in respect of raw cotton. The total volume of export and import of each block for the year 1938-39, based on the latest annual figures shown in these statistical publications in respect of individual items of trade is set forth in Annexure I. A special interest attaches to this Annexure because the commodities comprised in it cover by far the largest portion of the traffic carried by rail and river from one province to another of India.

4. It is, however, well to point out that, although the quantities of the trade items shown in Annexure I are expressed by a common denomination in weight, viz. a maund, (except in the case of animals, as previously stated) the totals of the quantities of either exports or imports of various blocks would not help us to get any idea about the relative importance of their total volume of trade. For, owing to the great disparity in values of different items of trade, the value of a smaller total quantity, in the case of one block may exceed the value of a larger total quantity in another; or, again, equal total quantities as between two or more blocks may represent a striking divergence in value.

II. Value of Trade of each Major Block

5. Thus to have an idea about the net trade of the

different blocks, it would be absolutely necessary to have corresponding values for the quantities of their annual exports and imports. The reason why no estimates of value are furnished in the Accounts relating to the Inland (Rail and River-borne) Trade of India is thus explained in the introductory note: "Owing to the great disparity between prices for the same commodity in different parts of the country, it is impossible, for the purpose of these accounts to work out the corresponding figures of value; and experience in the past has shown that, on whatever basis values are assigned to the quantity figures recorded, these are in most cases liable to make only a very vague approximation to the truth, and should, more often than not, afford no basis for working out a true and correct balance of trade for the different provinces involved". We have given our careful consideration to the points urged in the above extracts; and, much as we are impressed by them, we are inclined to feel that even a 'vague approximation', as referred to therein, has a special usefulness for the interpretation of the statistics. rather than having no idea whatever about the estimated value of the trade between different blocks. It is interesting to note in this connection that (except in respect of certain commodities' like sugar, cement, iron and steel wares, coal, tea, jute etc,) the different trade blocks are, in varying proportions, both exporters and importers of the same articles in which the disparity in prices is more pronounced. The defects arising from the disparities in ppices should thus, to a large extent, be neutralised; and this would seem to justify, at least, for obtaining approximate results, the estimation of the net trade balance of each block, on the assumption of certain general prices for the whole country, corresponding, preferably, to the prevailing wholesale prices.

6. 'Taking this view of the situation we have calculated the values of exports and imports of the various trade block, commodity by commodity, and also for the total thereof, and these are set forth in *Annexure II*. The prices on the basis of which these values have been worked, out are

shown hereunder :—

(Wholesale and Average Prices *per maund* in 1938-39)

		Rs.	as.	ps.	
Animals.					
i. Cattle	..	25	0	0	each
ii. Horses & ponies	..	50	0	0	„
iii. Sheep, goats	..	7	0	0	„
iv. Others	..	10	0	0	„
Rest.					
Bones	..	2	6	0	„
Cement	..	1	4	0	„
Coal & Coke	..	0	11	0	„
Coffee	..	32	5	0	„
Cotton.					
Raw	..	17	12	0	„
Twist & Yarn	..	40	8	0	„
Piece-goods	..	60	0	0	„
Dyes & Tans	..	2	6	0	„
Fruits, Dried	..	23	0	0	„
Glass	..	61	12	0	„
Grain, Pulse & Flour.					
i. Gram	..	4	1	0	„
ii. Jowar	..	4	0	0	„
iii. Rice (in husk)	..	2	2	0	„
iv. Rice not in husk	..	4	0	0	„
v. Wheat	..	3	0	0	„
vi. Wheat flour	..	4	9	0	„
vii. Other sorts	..	4	0	0	„
Hemp	..	6	5	0	„
Hides (raw)	..	23	12	0	„
Skins (raw)	..	50	0	0	„
Hides & skins (tanned)	..	110	0	0	„
Jute.					
Loose jute	..	6	8	0	„

		Rs.	as.	ps.	
Jute (Continued)					
Baled Jute	..	7	0	0	each
Gunny bags & cloth	..	8	8	0	,,
Iron & Steel &c.	..	8	0	0	,,
Lac & Shellac	..	15	0	0	,,
Manganese ore	..	0	14	0	,,
Oilcakes	..	2	7	0	,,
Oils.					
Kerosene	..	5	14	0	,,
Vegetable oils	..	10	0	0	,,
Oilseeds.					
Castor	..	4	4	0	,,
Cotton	..	2	0	0	,,
Groundnut	..	4	2	0	,,
Linseed	..	5	0	0	,,
Seasamum (Til)	..	5	8	0	,,
Ghee	..	46	8	0	,,
Salt	..	2	2	0	,,
Sugar.	..	8	8	0	,,
Gur	..	3	10	0	,,
Tea	..	50	0	0	,,
Tobacco	..	25	0	0	,,
Wood & Timber.					
Teak	..	12	0	0	,,
Other Timber	..	8	0	0	,,
Wool (raw)	..	42	8	0	,,

In respect of 'iron and steel bars etc' the average value per maund of imports of different descriptions of such wares has been assumed to represent the general average price.

Regarding 'Ghee' and such other articles for which prices are not available in the published reports and statistics, quotations of average wholesale prices have been obtained from the respective trades.

Prices of 'Animals' are based on trade estimates and are supported by the figures assumed by Dr. V. K. R, V. Rao in the compilation of national income in his recent treatise entitled 'An Essay on India's National Income' (1939)

7. The total values of exports and imports of the various principal trade blocks and their respective balances during the year 1938-39, as worked out in Annexure II, are shown below :—.

(Values of total Exports and Imports of each major Block as per accounts relating to Inland (River and Railborne) trade in India, for the year 1938-39)

Block	Export Rs.	Import Rs.	Net Balance Rs.
Assam	9,01,50,617	4,53,56,283	4,47,94,334
Bengal	32,14,93,459	39,90,65,804	-7,75,72,345
Bihar	59,54,00,823	23,43,70,867	36,10,29,956
Orissa	6,30,34,775	3,96,69,644	2,33,70,131
U. P.	36,88,99,299	32,51,63,629	4,37,35,670
Punjab	28,21,53,511	31,25,09,504	-3,03,55,993
Delhi Province	4,04,13,170	7,95,58,080	-3,91,44,910
N. W. F. P.	1,92,90,596	4,52,32,304	-2,59,41,808
Sind & British Baluchistan	8,41,65,957	15,84,34,993	-7,42,69,036
C. P. & Berar	19,86,84,522	10,33,06,576	9,53,77,946
Bombay	30,89,70,899	35,42,68,058	-4,52,97,159
Madras	41,37,92,300	24,49,56,077	26,88,36,223
Rajputana	41,39,21,350	23,31,15,291	17,08,06,059
Central India	9,25,45,002	6,86,84,217	2,38,60,785
Nizam's Territory	10,84,59,590	5,25,65,029	5,58,94,561
Mysore	6,42,20,575	9,19,73,991	-2,77,53,416
Kashmir	6,84,059	73,46,554	- 66,62,495
Calcutta	34,37,45,101	83,08,83,331	-48,71,38,230
Bombay Port	33,42,24,780	21,58,85,302	11,83,39,478
Karachi	10,13,92,361	11,36,74,064	-1,22,81,703
Madras Ports	7,14,44,561	16,03,34,664	-8,88,90,103
Madras Chief Port	8,23,44,046	25,83,75,137	-17,60,31,091

8. It should be noted however, that the table set forth in the preceeding paragraph shows net balance for various blocks only in relation to their exports and imports as registered in the River and Rail-borne Trade Statistics. These by no means reveal the net position of a trade block, particularly the maritime provinces, as affected by their inter-provincial trade. In respect of the non-maritime provinces and the States which lie within the external boundaries of the British Province the above net balance figures may be regarded as a sort of rough index for the purpose, within the limited scope of the River and Rail-borne Trade Statistics, which, it may be pointed out, relates not only to the number of commodities accounted for but also the transport agencies supplying figures for registration. Both the positive and negative balances of the maritime provinces and States, as shown in the above table, have to be scrutinised with reference to estimated volumes of non-recorded traffic and also the average figures for a number of years.

9. In respect of the maritime provinces, in particular, various complications are introduced into the task of estimating their net trade position even to such extent as may be permitted by available statistical data. In all these provinces the ports are treated as separate blocks with the result that the exports and imports of such provinces include exports to and import from their respective port or ports along with the blocks situated outside the borders and also to and from the very province in which the port is situated. In the circumstances, the trade between the ports and their own provinces *inter se* has to be left out of account if at all the net balances of the maritime provinces, as shown in the preceeding paragraph, have to be brought on a comparable basis along with the inland provinces and states. Even so, the net position of the maritime provinces as affected by inter-provincial trade would not be fully revealed, in as much as a considerable proportion of their imports from other trade blocks does not enter into their domestic consumption but is exported abroad; while a proportion of their exports to other

trade blocks does not include goods of local manufacture but consists of foreign goods imported from abroad.

10. In the circumstances, the net effect of inter-provincial trade of the maritime provinces on their respective economy would have to be estimated by correlation of their rivers and rail-borne trade statistics with the statistics of their foreign, sea-borne and coastal trades, in respect of which fairly comprehensive figures are available in the Accounts, relating to the Sea-Borne trade and Navigation of British India and the Accounts relating to the Coasting Trade of British India. Relevant extracts from these two statistical publications presenting respective annual figures for 1938-39 are set forth in *Annexure III*. The correlation in terms of values, as suggested above, would have to be made on the basis of a specific formula laid down as follows :—

Credit :

a. Exports of the Provincial trade block to all blocks, inclusive of port or ports situated within the province itself (Vide Annexure II)

b. Foreign Exports c. Coastal Exports	X. *Deduct* export from the Provincial trade block to its port or ports, to avoid duplication with (a) above.
d. Exports from the Port block or blocks situated within the Province to all blocks, including the Province in which the port or ports sre situated (Vide Annexure II)	Y. *Deduct* export from the port block or blocks to the Provincial trade block. (The two are not separable for calculation on a provincial basis)

Debit :

P. Imports into the Provincial Trade block from all blocks, inclusive of port or ports situated within the province itself (Vide Annexure II)

Q. Foreign Imports R. Coastal Imports	*Deduct* import into the Provincial trade block from its port block or blocks, to avoid duplication with (P) above.
S. Imports into the port block or blocks situated within the Province, from all blocks including the Province in which the port or ports are situated (Vide Annexure II)	X. *Deduct* import into the Port block or blocks from the Provincial trade block (the two are not separable for calculation on a provincial basis.)

Expressed in terms of the symbols, the formula stands thus : $(a+b+c-X+d-Y)-(P+Q+R-Y+S-X)$ which means that X and Y occurring once, in both credit and debit sides for necessary deductions would cancel themselves, so that the desired results might be obtained by entirely ignoring both X and Y and adding up the credit and debit items of the accounts.

11. Applying the above formula to the two most important maritime provinces of India, viz. Bengal and Bombay, the net effect of inter-provincial merchandise trade on their economy for the year 1938-39 may be estimated as follows :—

(1) **BENGAL**

Credit

Exports from Bengal to all blocks (Vide Para 7) . Rs. 32,14,93,459

Foreign Exports (Vide Annexure III) . .	Rs.	78,89,88,588
Coastal trade (Vide Annexure III)	Rs.	5,18,33,293
Export from Calcutta (Vide Para 7) . .	Rs.	34,37,45,101
	Rs.	150,60,60,441

Debit

Imports into Bengal from all blocks (Vide Para 7) .	Rs,	39,90,65,804
Foreign Imports (Vide Annexure III) .	Rs.	51,38,97,684
Coastal Imports (Vide Annexure III) .	Rs.	8,91,33,377
Import into Calcutta from all blocks (Vide Para 7) .	Rs.	83,08,83,331
	Rs.	183,29,80,196
Net balance	Rs.	183,29,80,196
	Rs.	150,60,60,441
		*-32,69,19,755

(2) BOMBAY

Credit

Export from Bombay to all blocks (Vide para 7) .	Rs.	30,89,70,899
Foreign exports (Vide Annexure III) .	Rs.	36,21,74,838
Coastal exports (Vide Annexure III) .	Rs.	19,61,79,394
Exports from Bombay port (Vide para 7) .	Rs.	33,42,24,780
	Rs.	120,15,49,911

* *See foot note on page 148*

Debit

Imports into Bombay from all blocks (Vide para 7) . . .	Rs.	35,42,68,058
Foreign Imports (Vide Annexure III) . .	Rs.	60,15,43,524
Coastal Imports (Vide Annexure III) . .	Rs.	13,53,73,551
Imports into Bombay Port (Vide para 7) from all blocks	Rs.	21,58,85,302
	Rs.	130,70,70.435
Net balance	Rs.	130,70,70,435
	Rs.	120,15,49,911
	Rs.	-10,55,20,524

The negative balances in both instances show the position in regard to merchandise trade only and even in respect thereof only to the extent that it is reflected in the river and rail-borne traffic, for which official statistics are maintained,

III. Origin of Trade in Principal Commodities :

12. The River and Rail-borne trade statistics contain interesting indications as to the origin of internal trade in various commodities. An abstract from the March (1939) issue of this publication, giving figures for all important items of our internal trade for 1938-39 is set forth in *Annexure IV*. A scrutiny of the Annexure reveals the following to be the largest exporting trade blocks in respect of the commodities mentioned against them; as a matter of fact

* *This is, however, found to be at variance with the result obtained by a different method of calculation in which both Exports from the provincial block to the Port and imports from the port into the provincial block are omitted (Vide Annexure A)*

these trade blocks taken together with others for which figures have been set forth in the columns of the *Annexure*, account for more than 80% of the total exports of each commodity dealt with therein.

Commodity	Principal blocks from which Trade originates, in order of importance	Remarks
Animals		
Cattle	Punjab	Punjab accounts for about half the total.
Horses & Ponies	,,	Accounts for about 1/3 of the total.
Sheep & goats	Rajputana	
Cement	Bihar, C.P. & Berar	The two provinces account for about half the total.
Coffee	Madras & Madras Ports	Account for more than 2/3 of the total.
Coal and Coke	Bihar & Bengal	Together account for more than 6/7 of the total.
Cotton twist & Yarn:		
Foreign	Bombay Port	Accounts for more than half the total.
Indian	Bombay & Bombay Port	Together account for more than 2/3 of the total.
Cotton Piecegoods:		
Foreign	Bombay Port, Karachi & Calcutta	Account for more than 7/9 of the total.
Indian	Bombay, Bombay Port & Calcutta	Account for more than 3/5 of the total.

Commodity	Principal blocks from which Trade originates, in order of importance	Remarks
Grain, Pulse & Flour Grain	Punjab, U.P. Madras Ports, Br. Baluchistan, & Bihar	Account for more than 2/3 of the total.
Jowar & Bajra	U. P., Bombay. & C. P.	Account for about 5/6 of the total.
Rice (In husk)	Bengal, Madras, U. P., Br. Baluchistan, Orissa, Calcutta & Madras Ports	Account for more than 6/7 of the total.
Wheat	Punjab, Br. Baluchistan & U. P.	Account for more than 6/7 of the total, Punjab, alone accounts for more than half.
Wheat Flour	Punjab	Alone accounts for more than half the total.
Hides and Skins:		
Raw hides	Bengal, Bihar, U. P., Calcutta & Punjab	Together account for about 3/4 of total.
Raw skins	Punjab, Bombay & U. P.	Together account for more than 1/2.
Leather	Madras	Accounts for about half.
Jute:		
Raw Jute	Bengal & Assam	Account for more than 82% of the total, Bengal alone about 80%.
Baled Jute	Bengal & Bihar	Bengal alone accounts for more that 3/4

Commodity	Principal blocks from which Trade originates, in order of importance	Remarks
Gunny bags	Calcutta, Bihar & Bengal	Calcutta alone accounts for about half the total.
Iron & Steel bars	Bihar, Bengal, Calcutta & Bombay Port	Bihar alone accounts for more than half the total.
Oils		
Kerosene	Assam, Bengal, Bombay Port, & other ports	Bengal, Assam & Bombay Ports account for 3/5 of the total.
Vegetable	Bombay, Calcutta, Madras, Nizam's Territory, Bombay Port and Madras Ports	Account for about 6/7 of the total.
Ghee	U. P. and Madras	Account for about 1/2 the total.
Salt	Calcutta, Rajputana, Bombay, and Madras Ports	Account for more than 5/6 of the total. Calcutta alone accounts for more than 1/3.
Oil seeds		
Castor	Nizam's Territory, & Bihar	Account for more than 213.
Cotton	Sind, Baluchistan, Bombay, C. P., & Nizam's Territory	Account for about 78%
Linseed	U. P., Bihar, C. P. & Berar, Nizam's Territory, and Central India	Account for more than 8/9 of the total.

Commodity	Principal blocks from which Trade originates, in order of importance	Remarks
Rape & Mustard	U. P. and Punjab	Account for about 5/9 of the total.
Sesamum	U. P., C. P., Madras, Nizam's Territory, and Madras Ports	Account for about 70%
Raw Wool	Rajputana, Sind, Baluchistan, and Punjab	Account for more than half.
Manganese Ore	C. P., Madras, Bihar	Account for more than 90%
Lac and Shellac	Bihar and C. P.	Account for more than 3/4. Bihar alone accounts for more than 1/2.
Glass	U. P. and the Ports	Account for more than 4/5, U. P. alone accounts for more than 25%
Fruits, dried	Madras & Calcutta	Account for more than 70%, Madras alone for more than half.
Sugar and Gur	U. P. & Bihar	Account for about 4/5 of the total, U. P. alone for more than half.
Tea	Assam & Bengal	Account for more than 3/4 of the total.
Tobacco	Madras and Bihar	Account for about 2/3 of the total.

IV. Movement of Trade in Principal Commodities:

13. A study of the movement of trade in commodities as between different blocks is not, however, directly facilitated by the River and Rail-borne Trade statistics. The monthly issues of this statistical publication do, of course, give running totals of the exports and imports of various blocks in respect of the 52 commodities covered by it, but no running totals are available as to the distribution of exports of a particular block between the various importing blocks for the year as a whole. Regarding such distribution we get only monthly figures, but not running totals. We considered it rather unsafe to interpret the movement or distribution of the exports of different blocks on the basis of the figures of any particular month, as these may be affected by possible seasonal variations or temporary transport difficulties in particular areas, and so may not serve as a dependable index of the general conditions of the distribution and movement of our internal trade. We have, accordingly, added up the monthly figures of distribution of the exports of certain important commodities from the major exporting blocks and have set forth the annual totals in *Annexure V*.

14. We have scrutinised the movements of our internal trade in the light of figures set forth in the above *Annexure* and have come to the conclusion that while, as a rule, the distribution and movement have taken a rational course, there are many instances in which these appear to be rather anomalous, while in some the movement has to be regarded as definitely irrational. These anomalies, taking the form of either the import of foreign goods or export of indigenous goods through a more distant port in preference to one nearer at hand, or the transport of indigenous goods over long distances to meet the requirements of an area having a nearer source of supply are effectively revealed by the following instances all relating to the year 1938-39:—

(i) Imports of Madras of foreign yarn and piece goods via her own ports were markedly less than her

imports of these commodities through Bombay and Bombay Port.

(ii) Bihar obtained a substantial proportion of her requirements of foreign piece-goods through Bombay port though Calcutta is nearer.

(iii) U. P. exported 95,458 maunds of Indian yarn to Bihar and herself imported 75,399 maunds of such yarn from Bombay and Bombay Port. Madras had also an identical experience in respect of her trade in indigenous yarn.

(iv) N. W. F. P. got a considerable supply of foreign piece-goods through Bombay though Karachi is nearer.

(v) U. P. sent more of her exports of linseed, sesamum, gram, jowar and bajra to Bombay than to Calcutta, though Calcutta is nearer.

(vi) Bengal received more of wheat flour from the Punjab than from U. P.

(vii) N. W. F. P. obtained more sugar from Bihar than from U. P.

We may point out that the above instances are more in the nature of illustrations and are by no means exhaustive.

V. Seasonal Fluctuations in the Trade.

15. The total monthly figures of exports of various commodities from all the trade blocks taken together reveal a certain measure of fluctuations in our internal trade. These fluctuations are, of course, more pronounced in the case of agricultural commodities than in the case of industrial goods, particularly those which are turned out by organised industries. In respect of salt, in particular, the movement seems to be fairly evenly distributed almost throughout the year, except during the months of April and May, when the maximum movement is recorded. This may be due to the

fact that the consumption of salt is more or less inelastic.

16. In respect of a number of important commodities the total export figures from all the trade blocks as recorded in the River and Rail-borne Trade Statistics, are set forth, month by month, in *Annexure VI*.

A scrutiny of this *Annexure* reveals certain interesting features as to the seasonal fluctuations of our internal trade in specific commodities as noted below:

Commodity	**Brisk season (Duration)**	**Slack season (Duration)**
Coffee	Jan. to April	July to Sept.
Cotton piecegoods	Oct. to Nov.	June to August
Jute	August to Feb.	March to July
Shellac	Nov. to March	April to Oct.
Grains, Pulse and Flour gram	March to July	Jan. to Feb.
Jowar and Bajra	Dec. and January	April to Oct.
Rice (not in husk)	Dec. to March	
Wheat	May to July	
Oil Seeds		
Castor	Feb. to April	June to Dec.
Cotton	Nov. to March	May to Sept.
Groundnut	,,	Aug. to October
Linseed	March to May	Oct. to Feb.
Rape and Mustard	April to June	July to Dec.
Sesamum	Sept. to Feb.	June, July
Salt	April, May	
Sugar	Feb. to June	
Raw Wool	Oct. to March	May to July
Tea	July to Nov.	Jan. to April

We consider it, however, necessary to have the above observations confirmed in the light of corresponding figures over a number of consecutive years.

17. It is interesting to note that the above observations are borne out to a large extent by the following extracts

from the speech delivered by the Hon'ble Chief Commissioner of Railways in presenting the Railway budget for 1940-41 in the Council of State :—

"The great difficulty in India is that most of our traffic is seasonal and this causes a very uneven distribution. At certain periods of the year, we have no spare wagons whatsoever; at other periods we have a very large number out of use. A very large proportion of the traffic is concentrated between the months of November and March".

18. In corroboration of the above findings some interesting Railway Statistics relating to the movement of wagon loads on Class I Railways and the approximate total gross earnings of State-owned Railways at regular monthly intervals are set forth hereunder:

(Statistics of Railway Earnings & Wagon Loadings during 1938)*

For 10 days ending.	Broad Gauge Class I Rlys. (No. of wagons in terms of 4 wheelers).	Meter Gauge Class I. Rlys. (No. of wagons in terms of 4 wheelers).	Approximate total gross earnings of State-owned Rlys. (Rs. in lakhs)
20th Jan.	1,44,169	80,019	2,69
20th Feb.	1,46,103	80,367	2,74
20th March	1,35,447	74,388	2,67
20th April	1,36,429	70,363	2,81
20th May	1,39,218	66,402	2,76
20th June	1,20,138	56,970	2,50
20th July	1,13,453	53.622	2,27
20th August	1,10,143	51,053	2,09
20th Oct.	1,34,256	64,506	2,53
20th November	1,31,535	67,654	2,50

Vide Indian Trade Journal.

19. The above figures, however, make the significant revealation that despite periodic fluctuations in the trade in specific commodities, the deficiencies in particular lines during particular months are so made up by accelerated trade in others during the same period that a fairly even distribution of total traffic from month to month is ensured to the Railways almost throughout the year, except for the months November to March.

20. The figures set forth in Annexure I provide definite indications as to the deficiencies of particular blocks in respect of essential commodities such as food grains, ghee, and salt (petroleum is ommitted because after the separation of Burma we have to depend almost entirely on imports; a small amount is produced in Assam and the Punjab). The position in which the different blocks, exclusive of the ports, stand in this respect is noted below :—

Blocks	(Gram)	(Jowar & Bajra)	(Rice)	(Wheat)	(Ghee)	(Salt)
Assam	Deficit	Surplus	Surplus	Deficit	Deficit	Deficit
Bengal	Surplus	Defict	,,	,,	,,	,,
Bihar	,,	Surplus	,,	,,	Surplus	,,
Orissa	Deficit	,,	,,	,,	Deficit	,,
U. P.	Surplus	,,	Deficit	Surplus	Surplus	,,
Punjab	,,	Deficit	,,	,,	,,	Surplus
Delhi	Deficit	Surplus	,,	Deficit	Deficit	Deficit
N. W. F. P.,		,,	,,	,,	,,	,,
Sind & Baluchistan.	Surplus	,,	Surplus	Surplus	,,	,,
C. P. & Berar	,,	Deficit	,,	,,	Surplus	,,
Bombay	Deficit	Surplus	Deficit	Deficit	Surplus	,,
Madras	,,	Deficit	Surplus	Surplus	.,	Deficit
Rajputana	,,	,,	,,	,,	,,	
Central India	Surplus	Surplus	Deficit	Surplus	,,	

Blocks	(Gram) Surplus	(Jowar & Bajra) Surplus	(Rice) Deficit	(Wheat) Deficit	(Ghee) Surplus	(Salt) Deficit
Nizam's Territory	,,	,,	,,	,,	,,	,,
Mysore	Deficit	,,	,,	Surplus	Deficit	,,
Kashmir	,,	Deficit	Surplus	Deficit	Surplus	,,

VII. Scanty development of Internal Trade in certain Commodities

21. One striking revelation which the study of our internal trade statistics makes is the very meagre development of such trade in shellac, manganese ore, tea, jute, and such other commodities of which the bulk is exported abroad. Among such commodities tea and jute stand in a sense, by themselves as these offer special opportunities for an immediate and progressive expansion of the domestic market. So far as tea is concerned, an organised effort in this direction is being made by the Tea Market Expansion Board for some years past with encouraging results. Similar endeavours need be made also for enlarging the use of raw jute and jute goods within the country for some very important reasons of concern to our internal trade as a whole. Bengal, as is well known, is the biggest consuming province in India, but this consuming capacity is sustained almost entirely by the prosperity of the jute trade, which at present is dependent to a degree on foreign exports, our domestic consumption accounting for no more than 10 to 15% of the output of the fibre, taking both raw jute and jute goods together.

This can hardly be regarded as a satisfactory position either in the interest of the province or of the internal trade of the country to which the prosperity of the jute trade means so much. At present the jute industry in India has been concentrating itself only on the manufacturing of hessian and sackings, the use of which must have limited prospects within the country. If, however, our jute can be put

to new uses, specially by the chemical treatment of the fibre or the fabric such as for the manufacture of linoleum cloth or similar other articles, to which reference is made by the Minority Report of the Bengal Jute Enquiry Committee of 1934, the internal markets for this crop can be vastly extended yielding a permanent benefit to India's economy. It is understood, however, that such new industries require considerable capital investment. The organisation of such new ventures should be undertaken after proper investigation by the Planning Authority, for the problem is evidently one of major concern for the whole nation. But that is a question which comes more appropriately within the purview of the Industries Sub-Committee.

** Underlining indicates large deficiency or surplus which is interpreted in terms of net exports or imports by rail and steamer.*

CHAPTER V.

Suggestions Regarding the Development of Internal Trade

We have already discussed in Chapter II that the geography of India is particularly favourable to the development of her internal trade. We have also referred in Chapter III to the fact that the policy that should guide the future economic programmes of the Government of India and also of the Provinces must eventually give an effective impetus to the interchange of goods and materials between different parts of the country. The extent, however, to which the prospects envisaged in the above two chapters will materialise will depend largely on two essential conditions which constitute the *sine-que-non* not only of international trade but also of the internal trade of a country. First there must be a growing effective demand for the expanded volume of surplus goods produced in different parts of the country; and secondly. the increased production must be backed by adequate facilities for cheap transport, which, as we have already stressed, vitally affects the prospects of internal trade in a country of long distances like India. The fundamental implications of these two essential conditions are separately examined below.

Need for raising the standard of deficient Provinces:

2. The effective demand referred to above implies not only a genuine want but also the capacity for satisfying that want on the part of prospective customers. There is a manifest inequality in this regard as between different parts and communities of India, as the disparity in the *per capita* income of different provinces would show. Unfortunately, it is the provinces with low per capita incomes that, as a rule, have so far been relied upon most to provide the markets for our industrial goods. Indeed, their comparative poverty is itself a symptom of their industrial backwardness. Evidently in a country like India, where the people are, comparatively speaking, immobile and prefer sticking to the soil of their birth on traditional and sentimental grounds, the prevailing conditions do not offer a very reassuring support for an expansive industrial structure, except to the extent that our indigenous production leads to the replacement of imported goods without entailing any extra cost. It is essentially necessary, therefore, in the interest of maintaining the progressive character of our industrialisation and, incidentally of our internal trade, that the poorer provinces should be given a special impetus for the enhancement of their respective purchasing power. Whether this objective is to be realised by a planned geographical distribution of industries alone or along with the initiation of a new fiscal policy designed to give a special relief to the backward provinces are questions which are beyond our scope. Even so, we consider it necessary to emphasise the fact that the question of raising the purchasing power of the people in backward provinces of India constitutes a serious problem that confronts a steady and progressive expansion of our internal trade.

Wanted better transport facilities

3. The problem of transport in regard to the move-

ment of internal traffic, either agricultural crops or industrial goods, has been examined at length by the Aricultural Commission and the Industrial Commission respectively. As a result of their investigations both these commissions have made certain valuable constructive suggestions which are set forth in *Annexure I*. We are of opinion that so far as the interests of internal trade are concerned, much of the findings of these two commissions hold good even today. In regard to the suggestions of the Industrial Commission in particular, it has been brought to our notice that some changes have since been affected as a result of the activities of the Indian Railway Conference Association and the quarterly conferences of the General Managers of principal Railways with the representatives of various commercial and industrial organisations. It is necessary to point out, however, that while the concessions thus granted have benefitted particular factories, the plea so strongly put forward by the Industrial Commission for a thorough overhaul of the prevailing structure of Railway freight rates in consonance with the new situation created by the progressive industrialisation of the country synchronising with a dwindling importance of her foreign trade remains still to be given effect to.

4. A scientific revision of our Railway freight structure would not, however, by itself solve the transport problems of our internal trade. For the latter is as much concerned with better facilities for motor transport which is calculated to play a more effective role in connecting the legion of rural trade centres in the interior of the country. Evidently the development of this mode of transport is pre-conditioned by the adoption of a progressive road policy duly co-ordinated with other means of transport and the establishment of the different kinds of taxes on motor vehicles on a sound and scientific basis. The meagreness of the development of roads in India remains a serious weak point in her economic structure. In 1933 there were, including Municipal Roads 267,391 miles of roads of which 190,534 miles were non-metalled and 76,857 miles metalled. Even in 1927 the Road Development

Committee had remarked that "It is somewhat incongruous that there should be nearly 40,000 miles of Railways in India, while the total mileage of surface roads is only 59,000." It is true that since the institutions of the Road Development Fund, greater attention is being paid to this problem but the road system of India is yet to be found markedly inadequate as compared with the United States of America which provides a close parallel both in respect of agricultural importance and magnitude of the country.*

	Major Provinces of India		U.S.A.	
Density of population per sq. mile	240		31.5	
	Per 100 sq. miles of area.	*Per 100,000 of population*	*Per 100 sq. miles*	*Per 100,000*
Mileage of all Roads ;	20.18	84	80	2,500
Surface Roads:	5.38	22	12,05	383
Percentage of roads surfaced:	26.5		15.	

The paucity of roads in India is further borne out by a comparative study of her position with other advanced countries particularly in regard to the proportion of road mileage to the net cropped area, which tends to show that the condition obtaining in India has not appreciably changed from what it was prior to the advent of motor transport. "For an area of over 800,000 sq. miles comprising a crop area exceeding 210 million acres, the total mileage of metalled roads in British India is hardly 66,000 miles, which amounts to one mile of metalled road for 12 sq. miles or one mile for a crop area of 3,200 acres. An idea of the extreme inadequacy of this mileage can be obtained when we remember that Great Britain with an area of 24 million acres has very nearly thrice the metalled mileage of India, amounting to one mile of road

* *Vide Dunlop India Review, November 1939.*

for half a square mile, or expressed in terms of the crop area, one mile of road for 135 acres."

5. We may also note in this connection that motor transport is subject to various taxes and is thus placed in an unfavourable position. The policy of the Government of India and the Provincial Governments has been, on the whole, to tax motor transport to the hilt. To begin with, the motor vehicle is made to pay a high import duty before it can be put on the road,—a duty amounting from 17½% to 37½%, depending on the class of vehicles and the country of origin. Then the vehicle is made to pay heavy taxes to the Provincial Governments and in certain cases also wheel taxes to Municipalities. In addition petrol is subjected by the Government of India to an excise import duty of ten annas per gallon* and very recently by certain provincial governments to a sales tax of one to two annas per gallon, the result of all of which, as can be readily imagined, is to retard the development by unreasonably raising the cost of motor transport.

"That motor transport is not getting a fair deal is evident from the fact that it is made to subsidise the general revenues of the country instead of receiving due benefit therefrom. Motor transport during the year ended 31st March 1939 contributed roughly ten and a half crores of rupees to the Central and Provincial revenues, of which 7.92 crores went to the Central Government in the shape of excise and import duties on vehicles and petrol and the remainder to the provincial governments. During the same year the total expenditure on extra-municipal roads in British India did not exceed Rs. 6½ crores." **

6. Evidently the circumstances stated in the foregoing

* *Since further increased by 2 as. per gallon in the latest budget of Government of India.*

** (*Vide article by G. S. Nair, Hon. Secretary, Bombay Branch of the Indian Roads and Transport Development Association Ltd., published in November (1939) issue of Dunlop Indian Review.*)

paragraph act seriously to the prejudice of the extension of road motor services in India and incidentally to the development of her internal trade, and we cannot too strongly urge that the entire problem of rail and road transport and planning and construction of new roads should be reviewed and brought under an effective scheme of co-ordination, with a view to providing the cheapest and most efficient facilities for movement of goods. The problem was examined at some length in the Report of the Mitchel-Kirkness Committee, but the investigations of the latter have, it appears served more to reveal the complications of the problem and the difficulties arising from an unrestrained competition between Railways and road motor services than offer a satisfactory constructive solution meeting the claims of both, beyond emphasising the principle that the road services should, as a matter of policy, be developed as feeders to Railways. Our attention has also been drawn in this connection to the latest Motor Vehicles Act providing for the establishment of Provincial and Regional Transport Authorities and imposing numerous restrictive conditions on road motor services for the safety of passengers. While the Act may be welcome from the point of view of regularity of services and safety of passengers, it is necsssary to point out that it has not advanced the cause of co-ordination in the manner envisaged by us; for the Regional Transport Authorities set up under the Act will be in a position to exercise control over the road motor services alone and will have no jurisdiction whatsoever over either Railways or water transport.

7. Judged by the standard of cheapness the development of water transport has in our opinion great potentialities in the eastern provinces of India comprising U. P., Bihar, Bengal and Assam served by either the Ganges or the Brahmaputra. In this connection we consider it necessary to make a special reference to the following observation made by the Indian Industrial Commission: "The Government of India should take up the question of improving the existing waterways and we cannot help thinking that, in the

absence of a representative specially charged with their interests, the vested interests of railways have prevented waterways in India from receiving the attention that has been given to them in other countries with such satisfactory results."

We are aware that in recent years attempts have been made to tackle the problem in certain provinces by their respective governments. In Bengal, in particular, a Waterways Act was passed in 1934 providing for the establishment of a Provincial Waterways Board for the resuscitation of the various decadent waterways and development of inland navigation for which it was given specific statutory powers of levying a cess on steamers, boats and other beneficiaries of the scheme. The enforcement of the Act has, however, been kept in abeyance. We have given careful consideration to the subject and have grave misgivings about the effectiveness of any isolated efforts by individual provincial governments in this direction. Our scepticism in this regard is based on the consideration that the endeavours of one provincial government for improving the navigability of a river that runs through a number of provinces may be materially frustrated by the irrigation or navigation schemes of another provincial government having jurisdiction over the upper reaches of the same river. Thus taking the instance of the Ganges that flows through U. P., Bihar and Bengal, it is significant to note that the canal irrigation projects of the U. P. Government in the upper reaches of the Ganges was one of the important causes of the silting up of the river in its lower reaches through the deflection of large discharges of water from the upper zone of the river into various irrigation canals; and this has been reacting adversely on Bengal having access to the lowest reaches of the river alone. The situation urgently demands that an effective scheme should be evolved for bringing about a satisfactory compromise between the interests of irrigation of the U. P. and those of drainage, irrigation and sanitation of Bengal, and we are strongly of the opinion that this and such other problems should be brought within the scope of federal

responsibility. Whether the task should be entrusted to any administrative department of the Federal Government or to a statutory body like the Mississippi Valley Commission or the Tennesse Valley Authority of the U. S. A. and also the details of what the rights and functions of such a body should be are matters that should appropriately engage the attention of the Transport Sub-Committee along with the other problems of transport to which we have already referred.

Creation of new markets by propaganda:

8. We have already drawn attention in Chapter IV to the possibilities of expanding our internal trade by the creation of markets within the country for certain commodities like jute and tea, of which the bulk is now exported abroad. There are numerous other articles which are to be regarded as specialities of particular parts of India but have yet very limited markets within the country. Mention may in this connection be made of such articles as honey, 'chutneys', artistic furniture made of cane and bamboo and the like. Honey in India is not yet used as an article of food; its consumption is practically confined to medicinal uses. Latest investigations, however, show that honey has excellent potentialities for being included in normal dietary, and we are informed that in the U. S. A. it is freely used with bread along with cream and butter. The annual consumption of honey in America has already reached a staggering figure and it has been giving a support of inestimable value to the extensive bee-keeping industry of that country. In regard to 'chutneys' also we have yet a very restricted market, which it should be possible to largely expand at least in respect of those made from fruits which are specialities of particular regions. The artistic furniture made of cane or bamboo which are available at a very moderate price in parts of Assam and Bengal have likewise great potentialities just as so many other things of the kind. The expansion of the internal

market in these articles is essentially a question of creating favourable tastes which can be done only through persistent investigations and propaganda. The widening of such markets is to be distinguished from what is expected from accelerated industrialisation, for it would not so much tend to a displacement of imports as the creation of entirely new demands and would in conseqnence, mean a positive gain to our internal trade. And in so far as it is calculated to bring a much-needed supplementary income to the cottage industry workers except, of course, in the case of tea, the question of developing such markets should find a prominent place in the future planning of our internal trade. The activities of marketing officers in India have hitherto been governed particularly by the problems and difficulties reported from overseas markets. While we do not underestimate the importance of such activities, we consider it necessary to emphasise that a systematic and continuous investigation into the potentialities of internal markets for different kinds of articles produced within the country should be given its deserved importance in the future commercial policy of India.

Need for better statistical and marketing intelligence:

9. But the most important need in connection with the development of our internal trade is the establishment of a well-equipped machinery for the compilation and dissemination of all necessary statistical information about the internal movement of goods. This will indeed constitute the essential prerequisite and concomitant of all schemes of internal trade planning. We haue already referred in Chapter IV to the inadequacy and imperfections of the available statistical data which make it almost impossible to arrive at any precise conclusions regarding even the most important aspects of our internal trade. For river and rail-borne trade we have at present figures for a very limited number of blocks, with the result that we can have no idea whatsoever about the move-

ment of goods within the provincial blocks of which many are as big as, or even bigger than, some of the European countries. Further, the commodities, for which the statistics of inter-block trade are now available, are extremely limited in number, and even for them no distinction is made between indigenous and foreign goods, except in the cases of cotton yarn and piece-goods. And for none do we get the value. In the absence of such important details the existing statistics of our river and rail-borne trade can serve no purpose except showing the quantity of exports and imports of the few selected commodities (of which some indeed are composite items) from and into the limited number of blocks. But even in respect of the quantity of exports the available statistical data do not give any idea as to the proportions thereof that are produced within the exporting block or are imported from outside. Nor do we get running totals in regard to the distribution of the annual exports of a block among the various importing blocks and the deficiency in this regard has to be made up by the painful and laborious processes of adding up the monthly figures. It is impossible, as we have already explained, to make any correct assessments as to the net effects of exports and imports on the internal economy of the trade blocks for which river and rail-borne statistics are available at present.

10. Our attention has, however, been drawn to the fact that the above shortcomings of our internal trade statistics have recently been considered by a Committee appointed by the Government of India (1937) and that the latter have made a number of recommendations for the publication of such statistics in a more amplified form. A copy of the summary of the conclusions and proposals of this Committee is appended hereto. (Annexure II)

11. We consider that the proposals of the afore-mentioned Committee will, if the same are *in toto* carried into effect, mark an appreciable improvement on the present situation, but that there will yet remain some distinct gaps that will seriously detract from the utility of the statistics compiled in

the proposed amplified form. The absence of the estimates of value will itself be a great drawback for reasons already explained, and then the figures even in their amplified form will fail to give us a comprehensive picture as no figures for either road-borne traffic or traffic carried by country boats would be available.

We, however, endorse the suggestion made by the Committee in regard to the compilation of statistics for road-borne traffic. viz., that "Provincial Governments should be urged to investigate the possibility of making suitable arrangements for recording road-borne traffic within their jurisdiction." We consider that similar investigations should also be undertaken by Provincial Governments in regard to traffic carried by country boats,

12. It is necessary, however, to point out in this connection that the implications of our river and rail-borne trade statistics can be fully comprehended if only these are studied in correlation with other allied statistical information to which reference has been made in Chapter IV. In view of the close inter-relation between statistics of production, transport and foreign trade, we are inclined to the view that the compilation of all such statistics should, as far as possible, be brought under centralised control. This would help to keep the purposive character of each kind of statistical information clearly in view and also avoid unnecessary duplication. We have received valuable suggestions in this regard from Mr. D. C. Ghosh, M. A., of the Lahore University who has made a special study of the subject and have pleasure in setting forth his suggestions as an Annexure to this Chapter (Annexure III).

13. A plea for setting up a Central Statistical Department in India "which in addition to the collection of statistics can coordinate statistical enquiry and information for the whole of India" was strongly urged in Bowley-Robertson's Report (1934) entitled 'A scheme for an Economic Census of India'. We regret to note, however, that the statistics relating to our internal trade were not taken up by the experts

for a detailed critical examination. They have, however, made an important suggestion in regard to the amplification of Banking Statistics in India which is expected to reveal the character of our internal trade in some of its aspects. "It is that once a year—or preferably, in view of the violent seasonal movement in India, twice a year the scheduled banks might be required to submit to the Reserve Bank, for publication in a single consolidated account, a return of their advances, classified so far as possible, not in accordance with the type of security taken, but in accordance with the purpose for which advance is being used". (Vide page 54). The following basis of classification was tentatively suggested by the experts for the purpose:

Advance:

i. for growing or trading in raw produce,—showing principal crops separately;
ii. for manufacturing purposes,—showing principal industries separately;
iii. to building and contracting agencies;
iv. to transport agencies;
v. for trading in secondary products;
vi. for trading in securities;
vii. for other purposes.

Despite the fact that our banks at present finance only a portion of our internal trade we would welcome an elaboration of our banking statistics on the above lines as this should give valuable indications as to particular aspects of such trade.

APPENDIX II

EXTERNAL TRADE

(*Note:* The data referred to in this note have been mainly drawn from:

1. Reviews of Trade, the Government of India;
2. Reports by the Non-Official Advisers to the Government of India, for Indo-British Trade Negotiations;
3. Reports of the Imperial Economic Committee on different commodities; and
4. Statistical publications of the League of Nations.

As these sources are easily available, the descriptive treatment touches only the salient aspects of the problem, and individual sources may be referred to for more detailed information.)

A. EXPORTS:

1. The course of our International Trade can be seen from the figures given in Table I. These figures have been

purposely taken over a long period, so that we can have a better perspective of the movement and growth of our trade. It will, for instance, be seen that the high figures of our exports to which we were used in the past, and from which our trade has receded during recent years, were reached only during the last world war and the post-war periods. It will also be seen that if we were to leave out this exceptional period the value of our export trade was about Rs. 150 crores. Seen against this background, the present position of our trade does not appear as unsatisfactory as it would otherwise do.

II

2. The above perspective is necessary for another reason also. Since it is our intention to prepare a plan for our Export Trade, the first question that would arise in any such normative treatment is in respect of the determination of the optimum or the standard towards which we should direct our endeavours. At first thought, it may appear that since International Trade comes into existence to fulfil International demands, the size of such demands, or in other words, the size of foreign markets available for our products would determine the optimum. In fact, this is the thought with which we have been working so far. On a second thought, however, such a standard would appear to be a completely unreliable guide on which we should base our plans. Nothing is more uncertain in the present economic and political conditions than the foreign market for a commodity. It may exist this year and may completely disappear next year, and cannot, therefore, serve as a standard by which progress can be measured. This is particularly so if our aim is to have a long period plan.

3, Alternatively, it has been suggested that our endeavours should be concentrated towards the realisation of a favourable ratio of exchange for the barter terms of trade. Even this, however, may not give completely satisfactory

results. Since the barter terms of trade would necessarily depend upon the quantities of goods exported and imported, they would as much be governed by commercial policies followed in other countries as the absolute size of the markets themselves.

4. The more one considers this problem the more one feels that for a committee like the Planning Committee, the selection of the standard will have to proceed on different lines altogether. It will have to adopt a standard which will not be vitiated by the policies followed in other countries, and which at the same time, will be integrated with the whole of our national economy.

5. This is of course not to say that the quantitative aspect of our export trade is of no importance. For comparatively short periods such aspect will definitely throw light on the progress that we are making in different markets. But it certainly cannot supply the basic considerations which will have to be independent of the temporary ebb and flow in the foreign markets.

6. In what follows, the quantitative aspect of our Export Trade is considered as one of immediate but temporary importance, and attention is invited to certain considerations which would supply the more permanent and the more correct standard.

III

7. Considering the quantitative aspect first, it will be seen from the figures given in Table II, that the War of 1914-18, disturbed our trade with the European countries and that for one reason or another we have not been able to recover that trade; on the other hand, our trade with Japan, the U. S. A., and the U. K. has been increasing. It is difficult to say to what extent the decrease of our trade with countries like Germany, France and Italy has been an absolute loss of the market, due to the commercial policies followed by these

countries. A part of the decrease may be due to the working of the Ottawa Agreement, as a result of which the U. K. has considerably developed an 'entre-pot' trade. In any case, taking up the present distribution of our trade, we find that the major part of our exports is taken up by the U. K., Japan, U. S. A., Germany, Belgium and Ceylon. With the separation of Burma, that country also now occupies an important position. The distribution of this trade among the various commodities, given in Table III, will show that nearly 2/3 of our trade is composed of Tea, Jute, Raw Cotton, Oil Seeds and Hides and Skins and Leather. Looking at the problem merely from the quantitative aspect these figures raise two questions:

i. Can we improve the distribution of any of the commodities so that we are able to secure a larger market in any country than what it has got today?

ii. Can we secure an increase in the total export of any of the Commodities?

In a way both these problems are correlated. It is obvious that the total possible consumption of a commodity in a country is the limit, to which we can improve either the distribution of any commodity among various markets, or to which we can push up the total exports of a commodity.

8. **Tea.** So far as Tea is concerned, the appended figures (Table IV) will show that U. K. is the largest consumer of Tea in the world's market, the other best importers, being, Canada, Ireland, Egypt, U. S. A., and Australia. These countries comprise the main market for the export of Tea, as the remaining European countries are mostly habituated to use Coffee; and, consequently, need not be considered for our purpose. Taking up the imports of Tea, in these Tea consuming countries, the Trade is almost entirely in the hands of Ceylon and Netherlands Indies. At first sight this would make it appear as if there is scope for the expansion of our trade with the U. S. A. and Colonies. Actually, however, this is not so. The distribution of Tea in the various markets is at present governed by a system of export licences

under the International Tea Restriction Scheme *and as long* as that continues our gain in one direction may be balanced by a loss in another direction. This state of affairs is bound to continue as long as the arrangement under the International Tea Restriction Scheme continues. And looking to the problems that the producers of raw materials have to face, it does not appear as if any export policy would be able to persuade them to give up schemes. which, while decreasing their market, assure them a definite profit margin.

9. **Jute.** In the case of Jute the position is a little difficult of analysis. In raw jute, we have a monopoly of the crop, and in jute manufactures, we are the largest producers. We are, therefore, in fact supplying whatever markets there are available today, and any change in the export policy is not likely to increase the size of those markets. On the contrary, it would appear that we have to look at the problem of Jute from a different angle altogether. We have, for instance, to find out whether it is possible for us to widen the present scope of the use of jute by an enquiry which would cover the fields occupied by other industrial fibres like, Hemp, Sissal and Manilla. We have also to see whether we cannot protect it against the use of synthetic or other alternative materials. It is pleasant to note that the industry is conscious of these problems, and researches have already been undertaken to widen the scope of the market for the use of Jute. The problem of its substitution by alternative packing materials is, however, one of the cost of production and the price policies. It has been noticed in the past that the artificially high prices at which jute manufactures are maintained, come in the way of its larger uses. In future, therefore, increased attention will have to be given to this aspect of the problem. It may also be mentioned that for some period the Jute Industry at Dundee has been pressing for a duty on the imports of manufactured jute. So far this pressure has not been successful, but in the event of its being so, we may have to consider the question of a duty on Raw Jute exported to the U. K.

10. **Raw Cotton:**

(a) The figures given in Table IV in respect of Raw Cotton show a maldistribution, both as regards the quality of Cotton exported and also regarding the markets. It will be seen that the major part of the exports are below the fibre length of 7/8" and that half of these exports are taken by Japan alone. It will also be seen that while the Indian mills have been increasingly consuming larger stapled cotton, their requirements are not satisfied by that, and they are becoming increasingly dependent on foreign cotton of a suitable type.

(b) During the last two years on account of Sino-Japanese conflicts, considerable difficulties were experienced in regard to Japanese exchange, and this is responsible for the considerable fall in the export of Indian cotton to Japan, in spite of the Indo-Japanese Trade Convention. There has also been a similar fall in the export of our cotton to U. K. during the past two years. Two of the greatest impediments in the way of the expansion of the market for Indian Cotton abroad, are its comparative inferiority in comparison with the long-stapled American and Egyptians, and trade barriers imposed in various countries of the world in recent years.

(c) The question is as to how we are to remove these impediments. As recent experience has shown, it is possible for us to grow more of the larger stapled cotton. But, if we try to export Cotton of that type, we are likely to come in conflict with other cottons with a similar fibre length, and it appears that our costs of production may come in the way of our successful competition. We have, therefore, to consider whether we cannot continue the present quality of our exports and reduce our costs of production, so as to leave a better margin to the agriculturist.

(d) Regarding the distribution among different markets, it would be advisable to remove our dependence on Japan. As however the cotton of the type that we export can be used only for coarse counts, it may be difficult to do so, unless we undertake technical research and demonstrate

that it could be successfully used for medium counts of yarn.

(e) Past history of the trade will show that we used to have bigger markets in Germany and that even today we have fairly good markets in France and Italy. With different trade policies followed in the first two countries, it may be possible to revive our markets there; in fact Italy would appear to be fairly anxious to secure our cotton. Such a revival, however, would be dependent entirely upon the extent to which we are able to persuade these countries to revise their policy, and as subsequent sections will show, it may not be easy for us to do so. Consequently for the moment it would appear that the best course will be to develop our markets in the U. K. Investigation has shown that there is a considerable scope in the U. K. for the use of Cotton of our type. That scope is also likely to increase as the Textile Industry in the U. K. is concentrating on markets like African countries and consequently turning to coarser counts.

11. Oilseeds:

(a) In the matter of Oilseeds, we are on different grounds. The trade on Oil consists mainly of Linseed and Groundnuts, which accounts for 2/3 of it. The rest is made up of Castor Seed, Rapeseed, Sesamum and other Oilseeds.

(b) In this, the problem of Linseed is a separate one. In this product, there are really two exporters, Argentine and India, though the producers include the Soviet Union and the U. S. A. Among the two exporters Argentine has a much larger export and a wider distribution of the markets. Our exports are mostly confined to the U. K., the actual share of the market in any year depending upon the parity of prices between ourselves and Argentine. It would accordingly appear that we have a fairly large scope in countries like France, Netherlands, Belgium and Germany, which have markets almost as big as the U. K. It would also not be difficult to secure these markets, as the ties between Argentine

and these other countries are not particularly strong. Besides this, our Linseed is of a distinctly superior variety. It would be easier to achieve this, if we were to control the present erratic behaviour in fixing the prices of our Linseed. It seems this is mainly due to an element of speculation in the trade.

(c) India is the largest producer of Groundnuts, and also provides a substantial part of the Export Trade. But of late, countries like Nigeria, Gambia, Senegal and Netherlands East Indies, are coming into the field. In fact, the proportion of the exports by Nigeria and Senegal has been increasing at a rapid rate, as a consequence of which India has already lost her important place in France, and is apparently, losing it in the U. K. and other countries. Since France is closely connected with Senegal and U. K. with Nigeria, it would be difficult to surmount this position. India in this case also must look to other countries on the continent.

(d) The real difficulty, however, in the matter of Groundnuts and other Oilseeds is of a different nature. A greater part of these products are being used in the manufacture of Soap, Margarine and Compound Lard. Since 1932, the proportion of vegetable oil, however, is being increasingly replaced by Whale and other marine oils, except in the manufacture of soap. It is difficult to say how long this tendency will continue, but it is clear that the more dominating problem is one of the narrowing of the markets rather than of distribution. It is this problem which we should try to face by undertaking industrial research and finding out whether we cannot successfully fight out the marine oils from the fields which they are now encroaching upon.

12. **Raw Hides:** India is one of the largest exporters of Raw Hides and Skins, and the trade is fairly well distributed also. In Raw Hides Germany used to be our best customer, and even now is a large importer of Raw Hides from other countaies. The recent trend of our trade seems to be towards larger concentration in the U. K., but as the trade in U. K. itself is of an entre-pot nature, there is perhaps no

substantial difference in the ultimate distribution of our products. In Raw Skins, on the other hand, the U. S. A. have been our largest importers. Our trade in Raw Hides has been mostly of the 'light type' and in Skins of 'Sheep Skins'. In both cases, we have a practical monopoly of the trade.

13. **Tobacco:** In the matter of Tobacco, we stand next only to the U. S. A. in our production. But as we are also a large consumer, only a comparatively small quantity comes out on the export market, and is less than the quantity exported by the U. S. A. Our Tobacco is not suitable for the manufacture of Cigarettes, and as such, we have only small market available to us which is concentrated in the U. K. Recent experience has, however, shown that it is not impossible for us to grow Virginian Tobacco, which can be used for Cigarette making. We should, therefore, increasingly concentrate on the production of such Tobacco, and thus secure markets which are closed to us. We should also try to popularise the use of Indian Cigars and develop a market in them.

14. Accordingly, we can answer the two questions that we formulated in the beginning of the section as follows:

i. We can possibly improve the distribution of Raw Cotton, Linseed and Hides and Skins among the the different markets. In the case of other commodities such an improvement is not possible either because we are monopolising the entire available markets or because the markets are governed by factors other than purely commercial.

ii. Except in the case of Raw Cotton and Linseed, it would not be possible for us to increase our total exports.

IV

15. It must, however, be mentioned that even if we are able to expand our markets in certain commodities, such a

gain will be merely a temporary one. For, we must realise that if we have been losing our markets, it has been partly due to commercial policies followed by different nations, and partly to the fact that new competitors in the form of colonies and alternative commodities are coming into the field. For some period it was thought that these were only temporary factors, but it would appear as if we have now to take them as the normal features of international trade. Even if the prevalent ideas of self-sufficiency in economic matters weaken at a later date, that will not be of much help. We have to take account of the fact that there is a universal desire to have a more controlled economy with a view to minimise fluctuations both in real and money incomes. This must necessarily continue and in most cases even increase the existing control of the foreign trade, and to that extent stand in the way of our expansion. Recent conceptions of the functions and the powers of the state also indicate a tendency in the same direction.

16. Similarly, in the case of colonies it may be taken that the process of exploitation will be more intense. In appraising this, account should be taken of the fact that for one reason or another the political ideals of these colonies are in greater harmony with those of the mother country, and are more convenient for such an exploitation. This apprehension will be clear from the examination of the positions occupied by different countries in the U. K. market in respect of Tea, Coffee, Oilseeds, and other agricultural products. It is certainly true that this competition has not yet reached a stage when an old established country, India, should be nervous of its position. But considering the fact that most of the colonies have more or less virgin soils, increasing competition could certainly be taken as a sign of the course of future development.

17. One may, therefore, conclude this survey of the quantitative aspect of our trade by stating that the trend of events is such that it would be extremely difficult to increase our export trade to any substantial degree and that continued

efforts will be required to maintain its present size in all the various commodities. Improvements in the geographical distribution of our trade will on the whole be helpful to us, only for the latter purpose.

18. This conclusion would naturally affect our views regarding the utility of trade agreements. It may, for instance, happen that on a proper examination we may find that trade agreements may not be able to achieve for us everything that we want. The detailed discussion of our various export markets mentioned above would show that in some cases the nature of our export commodities and markets is such that trade agreements whether exclusively with empire countries or otherwise need not have a negative and harmful effect. But it is only proper to emphasise that the positive effect may not materialise to the extent we would hope. This is due to the fact that, as a study of such arrangements shows, the benefits of preferential duties of quotas are usually hedged round with numerous qualifications which render them ineffective and make the preference illusory. In a way this is natural as no country would like to be completely dependent on another for its supplies, particularly if the supplies happen to be raw materials for manufacturing industries which have to come from outside.

19. Apart from that, however, there are other factors which also work in the same direction. The underlying idea of entering into bilateral agreements is that we will be able to safeguard our position in another country and give in return some previlege to the contracting party in the trade of our country. The first, however, could be achieved only if some other country did not already have a closer tie with the contracting country, a condition difficult of fulfilment in the present world conditions. It would, however, be more difficult to fulfil the second, and as it concerns ourselves, it

deserves more attention. Our imports consist mainly of manufactured goods, which are, in a way, easy of classification and differentiation. But, for the advantage to be real to the other party, both the customs classification and the tariffs will have to be sufficiently elaborate to exclude a third party from any of the benefits; in fact we would require a three-decker tariff in most of the imported commodities. When we remember the fact that we want to increase the range of protected industries, and when we also remember that we want to be able to buy quite a few things cheaper for a rapid industrialisation of the country, it would be clear that the fields which we could reserve for manipulations above mentioned would be very small. Nor indeed will it suit us to link up one commodity with another through quotas, as we have done in the case of Japan. A series of linked quotas could act only as a disturbing influence on the trade, while what we are aiming at is a stabilisation of the whole of our economy.

20. We can reach the same conclusion through another approach also. Normally, there is a greater competition for securing raw materials than for manufactured goods. But on account of the homogeneity of the markets, in spite of such a competition, the differences in the price of two similar agricultural products are not significant. When we, therefore, divert our trade to a particular country, by a treaty arrangement we merely remove that competition and instead of being able to secure a better price, possibly help to cheapen our supplies to that country. At the same time, on account of the fact that generally there is no special attachment to a particular raw material this sacrifice is not of much avail. On the other hand the manufacturing country stands to gain a distinct advantage in the country to which it is sending its goods. If it is able to secure duty-differentials, they are sufficiently wide to bestow an exclusive market in some goods and to help in building up such a market in other goods. This is due to the fact that as manufactured goods are not homogenous, and it is easier to build up a habit or to develop

a taste for certain goods. On account of the same factors again, as the arrangement works out, it is found that the value of trade which has enjoyed the benefit of treaty arrangement, and the quantum of the benefit will always be larger in the case of the manufacturing country.

21. This is what happened in the case of the Ottawa Agreement and this was their great disadvantage. The more or less exclusive markets that the U. K. got for its Steel and Cotton Textiles, far outweighed any advantage that India could secure in the U. K. market. It would accordingly appear that unless the contracting countries have reached an equal stage of development, securing of markets by commercial treaties would always impose a larger burden on the less developed country. If this be so, we may conclude that if we adopt a policy of having commercial treaties, the underlying idea should be more for the removal of handicaps against our commodities rather than securing any special advantages for them. It would also mean that our general policy should be in the direction of a liberation of the trade, and we should not differentiate between the treatment given to one country and another, if we could help it.

VI

22. This is, of course, not to say that no further positive action need be taken to encourage our exports. Such action is clearly necessary, if we want to stabilise our position in the various countries. On account of the fact that so far, the initiative for developing our trade has come from the U. K., the channels through which it flows are also British. For instance right from the port of exports, the goods are handled by British Houses, shipped in British vessels, and insured and negotiated through British institutions; on the other side of the sea, of course, there is no Indian representation at all. We must, therefore, build up these channels, which will handle the goods at both ends, and will thus have

a greater stake in the commerce than the present foreign houses. Similarly, we should encourage the growth of other institutions. This development will be necessarily slow, but if we succeed in building it up, we will to that extent succeed in stabilising our export trade.

23. Similarly we should gradually endeavour to change the character of our export trade. It should have been sufficiently clear by now that our exports consist mainly of raw materials, while our imports consist of goods which are manufactured from these commodities. It would therefore be obviously to our advantage to introduce a manufactured or semi-manufactured bias in our exports. Example may be given of our trade in leather, where gradually we are passing from raw Hides to semi-tanned and tanned Hides. It would also not seem impossible to develop an export of boots and shoes. Similar attempts may be made in other commodities. For instance Raw Tobacco may be replaced by Cigars and Cigarettes, and Raw Cotton by Cotton manufactures. For this purpose it would be necessary for us to create several links as mentioned above, and also to introduce further reforms where necessary. It was, for instance, realised that in spite of our huge exports of Oilseeds we have not been able to develop an export of vegetable oils because we lack the necessary facilities of Tankers both on the railways and the steamers.

24. Simultaneously with this, we should also consider another proposition. The distribution of our trade shows that it is mainly confined to the European Countries. In as much as we export raw materials for industrial uses, this will have to continue, but we can possibly introduce a manufactured bias, if we investigate the possibility of the development of our trade with non-European countries, which are situated near. It would not, for instance, be impossible to increase our trade with Iran, Arabia, Kenya, Straits Settlements, Ceylon and Java. While the standard of living is admittedly low in these countries, the stage of their economic development is also lower, and both these facts may be

actually useful to us. Our manufactured goods which will be comparatively of inferior finish in their earlier stages, may come more easily within the range of their incomes, than the better finished European goods, and at the same time, will not meet with a strong competition. It is not as if we will be able to develop a larger trade at once, but the point has to be stressed, as so far, only the European countries have bulked large in every consideration of our commercial policy even though we seem to have greater eventual advantages in these other countries.

VII

25. The analysis of the quantitative and distributive aspect of our trade will show that in most of the commodities, a liberation of the policy will not be harmful. On the contrary, it will be definitely advantageous to us. In the case of Cotton, on the other hand, the disadvantages appear to be far larger. As shown above Japan is the largest buyer of our cotton at present, and in course of time, we may be able to develop a market in the U. K. But on account of the fact that we have a large surplus of comparatively inferior cotton which we must export, both these markets are held at a cost. Both these countries are aware that it will be difficult for us to dispose of our cotton, without their help and use that as a leverage in securing other advantages. In fact, the necessity of retaining these markets is the one consideration which has so far outweighed others, and influenced us in the direction of the trade agreements. This has been so both in the case of our trade negotiations with the U. K. and Japan and will obviously continue to be so in future.

We are therefore faced with a peculiar problem. We find that our general advantage seems to be a liberation of the trade,and avoiding trade agreements as far as possible. But the surplus of Cotton so dominates in its influence that we have to enter into trade agreements and start the vicious

circle of preference and privileges given and taken. If we are therefore convinced that excepting Cotton, we are not likely to lose in other commodities, it would be advisable to take a bolder stand and refuse to be obsessed by the problem of Cotton. Even other considerations seem to demand such a stand. If we compare the productivity and the cost of production of our Raw Cotton, we find that it compares unfavourably with such costs in other countries. It would not be to our advantage to prop up an export which is nonpaying.

VIII

26. It will be apparent that in taking this attitude we are shifting the emphasis on to factors other than a purely quantitative aspect of our trade. We are in fact trying to distinguish between goods which are exported and which should be exportable. As the subsequent sections will show, this is the only line of inquiry which is likely to supply us with the more correct and the more permanent standard to which we should guide the development of our export trade. This will be better realised if we understand the nature of export trade itself.

27. The export of commodities comes into being on account ot several reasons. In the first place we might be so favourably placed in the production of some commodities that it would pay us to export them in competition with other countries. In the second place we might have contracted International Debts in a previous period and our present exports may be the only way to pay them off. In the third place, our existing imports may be so essential to us that we have to continue to export some goods to secure them. Generally the actual stream of the exports is supposed to be caused by all the three causes and emphasis is placed on one or the other of these causes only as a predominant cause for the particular period under examination.

28. A moment's consideration however will show that

the above way of looking at the export trade is more an abstraction created for the purpose of looking at the problem as a whole. It is obvious that, except in the case of a country like the U. S. S. R., the country as a whole neither imports nor exports in the above manner; nor is it conscious of any balancing of account. There is no single account through which all transactions are passed as the above version would make us believe. On the contrary the producer of the goods which ultimately become exports is not even aware of their final destination, nor is he concerned with the previous debts or the essentiality or the non-essentiality of current imports. Not only this; while what is imported is consumed in the country, the importer is a different person altogether; and except in rare cases the considerations which guide the exporter are the same as in the case of the importer.

29. Consequently it would be perhaps more correct to say that if exports come into being they do not do so consciously for any of the reasons mentioned above, but are merely an extension of the market for the commodity inside the country. This could perhaps be explained as follows. The market for a commodity even inside the country of origin is not single and uniform; it is rather divided into different zones with different sets of costs due to various reasons. A commodity may, therefore, be able to penetrate into one zone and fail to do so in the case of another. An export market is merely one additional zone with the only difference that the initial calculation of costs is distorted on account of a difference in the currency and a difference in customs regulations. Goods enter this market as a matter of course, just as they will move from one corner to another inside the country itself.

IX

30. When once this position is accepted it would seem to follow that:

i. Whatever the defects or otherwise of economics or production in the Home Market, the same would be represented in the export as well.

ii. *The import position may* be such that it may unduly depress the export market.

31. The first would straightaway dispose of the common assumption that whatever is exported is necessarily paying, and explain the distinction that we have been trying to draw between goods which are 'exported' and goods which are 'exportable'. If the export market is an extension of the home market, then there would be a number of exported commodities which would not be paying in home production, and which are produced simply because there are no other means of livelihood. It is clear that an indiscriminate encouragement of each and every export will not be to our advantage in such conditions, and this should put us on guard against the common craving for larger exports as something necessarily worth striving. More than all, however, it would follow that previous to the adoption of any specific policy for the exports, it would be incumbent on us to investigate, the exact position of the commodity in our internal economy and to adjust the export policy only in relation to the conclusion derived from such an investigation.

32. The second raises the same question from another angle. The mere fact of some parties having contracted debts, or some parties importing large quantities of goods may unduly cheapen our export to another country and create or perpetuate a disharmony within our internal economy. This effect is, of course, generally admitted, but its implications are not always realised. In a country like ours which is getting industrialised, the import of machineries and other stores will necessarily create a huge transfer of funds from the importing section to a foreign country. Such a transfer while perfectly in harmony with the cost conceptions of the industrialists, who import these machines, may impose a disproportionate burden on the agriculturists.

33. This would perhaps be easily understood, if we

were to draw upon the experience of European countries under the problems of 'Transfer' due to war debts. There the exchange had necessarily to be depressed to accommodate the huge transfer of funds; and that in turn depressed the value of a considerable range of goods and brought them within the zone of export markets. In consequence, the exports increased, but their size was merely an indication of the privation the nation was undergoing rather than any increase of wealth. Similarly European countries also have an experience of a commercial policy being advantageous to one class and disadvantageous to another on account of the existence of classes with different means. For instance, during the latter part of the 19th century a commercial policy which enriched the industrialists and the working class, imposed a great hardship on the agricultural populations of almost all the European countries. This was due to the fact that imports of food-stuffs from the new countries were brought at such cheap rates that the home agriculture could not stand the competition. It is not as if the particular policies followed had no other considerations; attention is merely drawn to the fact that a disharmony could be created on account of the commercial policy and notice should be taken of that among other things.

X

34. It was for this reason also that a long perspective of our trade was taken. It should be remembered that during the 19th century, industrial development of the country was done by funds which were never intended to stay permanently in the country. So a certain part of our exports may have been more in the nature of 'forced transfers' referred to above, rather than exports which would have been an automatic extension of the home market. It is difficult to say to what extent this could be the case, but the possibility must certainly be admitted that our export trade instead of enrich-

ing us may in some cases have had the reverse effect. If nothing else, that would at least show that our proper approach to the problem of the export trade would be through a study of the internal economy of the country, and not the other way round. In the past, we have been so obsessed with the size of our exports that we have not cared to study better its quality or its causes.

XI

35. It is outside the scope of this note to study the internal economy of the country, and in particular to what extent the various crops produced at present leave a margin to the cultivator. But such a study alone could be the starting point for a policy of exports. If such a study reveals that there are a number of commodities in whose production a drastic revision would be necessary, we should be prepared to do it even at the cost of a decrease of our present exports.* Only on this basis can a long period plan for exports be built up.

36. It is true that we have to pay a large sum by way of home charges; it is also true that we have to finance the imports of machinery. But the only effect of the policy advocated above would be to raise the cost of both these—of the former to the Central Government and of the latter to the more well to do sections of the people—as an analysis of the import trade will show that a very large part of the imports are not consumed by the agriculturists. In both cases, the cost will fall on persons who can bear it and will

* *Mr. C. B. Mehta takes the view that since India has considerable payments to make on account of her external debt, and has also got to depend upon imports from abroad for certain commodities, it would be desirable to continue exports from India sufficient to meet these payments. He would add that the export of our surplus production would be desirable even if it fetches low prices in comparison with the world prices.*

achieve the same result as a protectionist policy, with the only difference that the masses will be spared the burden of industrialisation. In any case such a policy would be more in harmony with our ambitions in the way of industrialisation than the present one, which on the one hand imposes protective duties and raises prices of imported goods, and on the other seeks to stereotype our exports in the hope of purchasing the Imports cheaply.

37. The adoption of a programme for the rapid industrialisation of the country under any scheme of National Planning may of course mean that in order to meet our external liabilities, such as home charges and also to import essential commodities, such as machinery, we shall have to find sufficient exports to pay for these items. Even in that case, however, it will be better to have a clear conception of the sacrifice we are making, and in which commodities we are doing so, so that when the need ceases, we can arrange to discontinue such exports as are not warranted by the more fundamental long-range considerations which we have emphasized.

38. It may finally be pointed out that although we have tried to examine the position of our export trade from the point of view of the general criteria laid down in this respect by the Planning Committee, our conclusions are likely to need modification in view of the all-round changes—changes in production, changes in qualities produced, changes in costs—which the adoption of the Plan will bring about. The position in respect of each commodity for export will, therefore, have to be reviewed from time to time by a competent authority. The same would apply to our conclusions regarding import trade also.

TABLE I (Ref. P 1, App. II A)

Value of Merchandise and Treasure and Gold separately, during the last five years with Quinquennial Averages for the past seventy years.

	Merchandise			Treasure			Total of Merchandise and Treasure	Gold		
	Imports	Exports	Excess of exports over imports	Imports	Exports	Net imports		Imports	Exports	Net Imports
Quinquennial average										
1864-65 to 1868-69	31,70	55,86	24,16	17,62	1,80	15,82	106,98	6,15	32	5,83
1869-70 to 1878-79	33,04	56,25	23,21	8,26	1,59	6,67	99,14	3,26	19	3,07
1874-75 to 1878-79	38,36	60,32	21,96	9,86	2,81	7,05	111,35	1,68	1,04	64
1879-80 to 1883-84	50,16	79,08	28,92	11,66	1,33	10,33	142,23	4,23	10	4,13
1884-85 to 1888-89	61,51	88,64	27,13	13,62	1,64	11,98	165,41	3,41	33	3,08
1889-90 to 1893-94	70,78	104,99	34,21	17,92	3,68	14,24	197,37	4,12	2,02	2,10
1894-95 to 1898-99	73,67	107,53	33,86	14,89	6,40	8,49	202,49	5,48	3,23	2,25
1899-1900 to 1903-04	84,68	124,92	40,24	26,01	11,65	14,36	247,26	13,00	6,82	6,18
1904-05 to 1908-09	119,85	165,44	45,59	36,15	9,90	26,25	331,34	16,85	7,50	9,35
1909-10 to 1918-19	151,67	224,23	72,56	47,20	8,32	38,88	431,42	32,79	4,64	28,15
1914-15 to 1918-19	159,25	225,83	66,58	39,07	7,30	31,77	431,45	12,14	4,26	7,88
1919-20 to 1923-24	267,05	306,38	39,33	53,16	13,26	39,90	639,85	31,24	10,25	20,99
1924-25 to 1928-29	251,02	353,51	102,49	53,68	4,14	49,54	662,35	33,68	18	33,50
1929-30 to 1933-34	161,14	198,60	37,46	13,38	42,26	–28,88*	415,38	6,54	37,26	–30,72
In the year 1933-34	117,30	151,17	33,87	1,96	65,57	–63,61*	336,00	1,10	58,15	–57,05*
1934-35	134,58	155,50	20,92	5,19	63,51	–58,32*	358,78	72	53,26	–52,54*
1935-36	152,01	154,54	2,53	7,84	44,90	–37,06*	359,29	99	38,31	–37,32*
1936-37	144,08	192,41	48,33	16,40	30,00	–13,60*	382,89	1,61	29,46	–27,85*
1937-38	177,23	189,77	12,54	4,71	19,76	–15,02*	391,47	1,56	17,89	–16,33*

Table II. (Ref. p. 2 App. II A)

Percentage share of the Principal Countries in the total trade in Merchandise only.

Countries.	Pre-War Average Imports.	Exports. including re-exports.	Total	1938-39. Imports.	Exports. including re-exports.	Total.
British Empire—						
United Kingdom	62.8	25.1	40.0	30.5	34.3	32.5
Burma	—	—	—	16.0	6.6	11.0
Ceylon	0.5	3.7	2.4	0.8	3.2	2.0
Straits Settlements	2.1	3.4	2.9	2.7	1.3	2.0
Australia	0.7	1.4	1.1	1.6	1.8	1.7
Hongkong	0.7	4.1	2.7	0.2	0.5	.4
Mauritius and Dependencies	1.8	0.6	1.1	—	0.5	.3
Total (including other British possessions).	69.7	41.1	52.3	58.1	53.6	55.7
Foreign Countries—						
Japan	2.5	7.5	5.5	10.1	8.8	9.4
United States of America	3.1	7.5	5.8	6.4	8.4	7.5
Java	6.4	1.3	3.3	0.3	0.4	.4
France	1.5	6.6	4.6	0.9	3.7	2.4
Italy	1.0	3.2	2.3	1.8	1.5	1.7
China (exclusive of Hongkong and Macao)	1.1	3.9	2.8	1.1	1.5	1.3
Iran	0.4	0.5	0.5	2.3	0.5	1.3
Union of Socialist Soviet Republics	0.1	0.9	.0.6	0.1	0.2	.2
Netherlands	0.9	1.5	1.3	0.9	2.2	1.6
Belgium	1.9	5.3	3.9	1.9	2.5	2.2
Germany	6.4	9.8	8.5	8.5	5.0	6.6
Austria (a)	2.2	3.5	2.9	0.3	—	.2
Total (including other foreign countries).	30.3	58.9	47.7	41.9	46.4	44.3

Table III. (Ref. p. 2, App. II A).

DIRECTION OF TRADE.

Exports.

	Tea			Jute (Raw)			Jute (Manufactures)		
	1935-36	1936-37	1937-38	1935-36	1936-37	1937-38	1935-36	1936-37	1937-38
	per cent	per cent	per cent	per cent	per cent	per cent	per cent	per cent	per cent
United Kingdom	88.8	84.8	87.5	21.6	23.6	19.1	8.3	9.4	9.6
Canada	3.2	3.7	4.1	0.1	0.1	0.3	3.1	3.2	3.3
Australia	0.5	0.3	0.3	0.2	0.2	0.3	8.8	8.2	7.1
Union of Socialist Soviet Republics	0.4	0.7	0.2	2.0	1.9	3.4	..	..	..
Iran, Arabia, Asiatic Turkey & Iraq	1.2	5.0	2.1	..	..	..	0.5	0.7	0.9
U. S. A.	1.8	2.1	1.6	10.0	10.8	12.5	30.4	30.6	29.8
Ceylon	1.1	0.9	0.9	..	..	..	0.1	0.1	0.1
Union of South Africa	0.2	0.1	0.1	..	..	..	3.2	2.8	2.9
Siam	..	..	..	..	..	..	2.9	1.7	1.0
Egypt	0.1	0.1	..	1.5	0.7	0.6	3.0	2.5	2.0
Spain	..	..	..	6.4	2.0	0.6	..	..	0.1
Germany	..	0.1	0.3	10.9	15.9	19.4	0.2	0.2	0.1
France	..	..	..	10.0	10.7	9.2	0.1	0.1	0.1
Italy	..	..	..	6.5	9.5	10.3	..	..	..
Argentina	..	..	..	0.7	0.9	1.1	7.9	10.0	8.7
Java	..	..	..	..	..	..	1.5	2.4	3.0
Japan	..	..	..	2.9	3.9	1.9	2.1	2.3	0.4
Belgium	..	..	..	7.3	8.4	7.2	0.7	0.7	0.9
Percentage of Total trade represented by countries shown	97.3	97.8	97.1	89.1	88.6	85.9	72.8	74.9	70.0
Total value of trade Rs. (Lakhs)	19,97	20,22	24,39	13,71	14,77	14,72	24,84	29,10	29,08

Direction of Trade (Contd.)

	Cotton (Raw)			Oil seeds			Food grains			Hides & Skins (Raw & Tanned)		
	1935-36	1936-37	1937-38	1935-36	1936-37	1937-38	1935-36	1936-37	1937-38	1935-36	1936-37	1937-38
	per cent	per cent	per cent	per cent	per cent	per cent	per cent	per cent	per cent	per cent	per cent	per cent
United Kingdom	13.4	14.9	14.7	24.5	32.2	32.3	7.7	33.4	35.4	61.1	66.6	63.5
Iran, Arabia Asiatic Turkey & Iran	..	..	..	0.3	0.3	0.2	11.8	7.9	5.0	0.2	0.2	0.2
U. S. A.	1.5	2.0	2.4	5.6	1.8	1.4	0.5	0.5	0.2	19.8	15.5	15.7
Ceylon	0.1	0.1	0.2	0.9	0.6	0.9	29.5	18.2	14.5	0.1	...	0.1
Germany	7.5	5.0	5.8	12.6	11.0	12.0	..	1.4	15.6	5.1	5.0	4.5
France	4.9	3.7	3.3	25.3	17.2	8.9	0.1	2.3	1.4	1.5	2.3	2.2
Italy	4.3	3.9	5.4	4.9	8.3	13.3	..	..	..	1.7	1.0	0.8
Japan	52.8	56.8	50.9	0.1	0.3	1.1	..	..	..	2.5	2.4	2.3
Belgium	6.7	7.4	7.2	2.2	4.1	4.9	0.1	0.3	1.5	0.9	0.2	0.6
China	3.0	1.5	2.4	..	..	..	..	..	..	..	..	..
Netherlands	1.2	1.2	1.5	15.5	16.8	15.7	1.0	1.5	0.6	1.5	1.0	1.4
Straight Settlements	..	..	..	0.6	0.2	0.7	5.0	3.0	2.8	0.1	0.1	0.1
Spain	1.9	0.6	..	0.8	0.3	..	..	0.8	..	0.5	..	..
Sumatra & Java												
Percentage of total trade represented by countries shown	97.3	97.1	93.8	93.3	93.1	91.5	55.7	69.3	77.0	95.0	94.3	91.4
Total value of trade In Lakhs of Rupees	32,75	43,17	29,03	10,46	18,57	14,16	3.74	6,57	9,49	9,23	11,01	11,39

Table IV (*Ref. p. 2. App. IIA*)

(1) TEA

Exports from countries of production in 1937.

(In Metric Tons)

Ceylon	96.7	China (excl. Manch)	40.7	India & Burma	150.2
Brazil	65.5	Netherl. Indies.	75.9	Japan	34.9

Total Exports - 475.0

IMPORTING COUNTRIES—1937

Europe		**Asia** (Contd.)	
Germany	5.4	French Indo-China	0.7
Austria	0.3	Iraq	3.2
Belgo-Lux (E.U)	0.3	Iran	9.7
Denmark	0.6	Japan	0.5
Finland	0.1	British Malaya	2.7
France	1.4	Palestine	0.3
Greece	0.1	Phillipines	0.3
Hungary	0.2	**Africa**	
Ireland	11.5	Algeria	1.5
Italy	0.1	Egypt	7.3
Malta	0.2	Morocco, French Prot.	8.3
Norway	0.2	Southern Rhodesia	0.2
Netherlands	12.0	Anglo-Egypt, Sudan	3.5
Poland-Danzig	1.9	Tunis	1.9
Portugal A	0.2	Union of S. Africa	7.0
Roumania A	0.3	**North America**	
Un. Kingdom (1935 A)	221.3	Canada	18.2
Sweden	0.5	U. S. A.	43.0
Switzerland	0.8	Newfoundland	0.7
Czechoslovakia	0.5	**South America**	
Turkey	1.0	Argentine	42.7
U. S. S. R.	15.2	Chile	10.7
Yogoslavia	0.2	Peru	0.7
Asia		Uruguay	19.8
China (excl. Manch)	0.2	**Oceania**	
Manchuria	5.2	Australia	21.1
India & Burma	2.9	New Zealand	4.8
Netherlands Indies A	0.5	Total Imports	491.9

Table IV—Contd.

2. Indian Cotton—Production & Consumption:

In thousands of bales of 400 lbs. each.		1933 34	34 35	35-36	36 37	37-38
Below	Production	3672	3539	4016	4130	3990
7/8"	Consumption	2190	1255	1294	1338	1589
Above	Production	1361	1207	1766	2057	1735
7/8"	Consumption	1036	1058	1327	1262	1805
Foreign Cotton consumption in Indian Mills:						
Above 1"		297	432	358	482	618

3. Distribution by Stable Length of Indian Cotton Exported by Sea.

(Quantity in thousand bales of net weight abt. 392 lbs. each)

		Year Ending 31st August:				
		1933-34	34-35	35-36	36-37	37-38
7/8" and above (long & medium staple)	Quantity	743	658	947	1,340	314
	% of total	24	23	28	33	16
Below 7/8" (short staple)	Quantity	2,375	2,190	2,409	2,675	1,654
	% of total	76	77	72	67	84
Total:	...	3,118	2,848	3,356	4,015	1,968
Exports as per official statistics (Bales of 400 lbs. net)		3,406	3,115	3,709	4,267	2,100

Table IV—Contd.

4. Annual Exports of Raw Cotton from India to Various Countries :

(Year ending 31st August) (Bales of 400 lbs. 000's omitted)

(Director General of Comm. Int. & Statistics)

Country	*1929-30	*30-31	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39
United Kingdom	286	274	128	257	367	374	518	587	362	402
Continent (Europe excluding U. K.)	1515	1002	431	960	984	955	995	1107	724	680
China	555	626	243	169	339	108	95	26	66	726
Japan	1409	1753	757	1444	1664	1622	1993	2407	813	1275
Other countries	103	74	33	38	52	5	108	140	135	191
	3868	3729	1592	2868	3406	3115	3709	4267	2100	3274

* Excludes exports from Kathiawar.

Figures prior to 1935-36 include Burma.

Table IV—Contd.

5. Proportions of Empire and American Tobaccos used for Pipes and Cigarettes

	Pipe Tobacco Quantity in 1000 lbs.	%	Cigarette Tobacco Quantity in 1000 lbs.	%	Total Quantity in 1000 lbs.	%
1924:						
Empire	11,000	22	—	—	11,000	8.4
American	39,000	78	78,000	100	117,000	91.6
Total: ...	50,000		78,000	—	128,000	—
1927:						
Empire	18,000	37	2,000	1	20,000	14.9
American	31,000	63	86,000	99	117,000	84.1
	49,000		88,000	—	137,000	—

6. Exportable surplus of the crops resulting from plantings in 1927 in the Chief exporting countries of the Empire

	Local production	Quantity of local production used locally	Exportable surplus
		Figures in Million of lbs.	
India	1,000	970	30
Canada	49	38	9
Union of South Africa	20½	11	9½
Nyasaland	8	—	8
Southern Rhodesia	16	—	16
Northern Rhodesia	2½	—	2½

Table IV—Contd.

7. Raw Hides

Exports from countries of production in 1936
(In Metric Tons)

Belgo-Lux	France	Netherlands	China (excl. Manch.)	British India
16.0	18.0	20.3	14.6	21.4
Argentine	Brazil	Australia		
138.9	53.1	14.2		

Total Exports—495.1

Importing Countries: 1936

Europe	
Germany	91.1
Austria	19.6
Belgo-Lux	4.4
Bulgaria	21.2
Denmark	2.6
Spain	1.6
Estonia	4.8
Finland	0.5
France	—
Greece	1.5
Hungary	5.7
Ireland	1.6
Italy	3.4
Latvia	5.4
Lithuania	6.3
Norway	3.6
Netherlands	1.5
Poland-Danzig	1.0
Portugal	13.6
Roumania	3.1
United Kingdom	1.1
Sweeden	2.0
Switzerland	4.0
Czechoslovakia	0.5
Turkey	26.5
U. S. S. R.	21.5
Yugoslavia	3.4
Asia	
China (Excl. Manch)	14.5
Manchuria	1.7
British India	6.3
Japan	31.0
Africa	
Algeria	19.2
Union of S. Africa	3.5
North America	
Canada	1.1
U. S. A.	25.8
Caribbean	
Mexico	3.5
South America	
Chile	2.1
Oceania	
Australia	10.9
Total Imports	528.5

(B) INDIA'S IMPORT TRADE

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1. Looking at the other side of our Trade, viz. the Import Trade, we find that its course has been more or less the same as that of the exports. As in the case of Exports, the peak in the Import Trade was also reached during the years following the World War. It began to decrease after 1923-24 and suffered considerably during the Great Depression. This movement reversed itself in 1933, and since then the trade has been slightly on the increase (Table I). In this improvement, both the Ottawa Agreement and the creation of the Sterling Block have played a certain part, as the main increase in the trade came from the Empire Countries, including the U. K.

2. It is difficult to say how far the decrease in Import referred to above was due to conditions affecting World Trade, and how far due to conditions special to India, but it would be worth while to note two points, as in our opinion, they have a far-reaching importance to our general economic policy regarding the trade. Firstly, on account of the depression, world stocks of primary commodities went on increasing till the year 1933. India was also a victim to this, with adverse consequences on the prices of agricultural commodities. Secondly, while prices in the manufacturing countries began to recover after this date, no such tendency was noticed in the case of India, and gradually a disparity developed between the price-level in India and the price-level elsewhere. One of the reasons which aggravated the situation was the failure on the part of the Government of India to adjust the currency policy to the rapidly changing situations outside. This was naturally reflected in the terms of our trade. The highest level of export prices was reached in 1928-29, when the Index was 135. (Base 1913—14 = 100). Thereafter, with slight fluctuations the general trend of declared values of

exports was downward till it reached 70 in 1937. On the other hand, in the case of Imports, the two corresponding figures were 124 and 83. It would, therefore, follow that India being mainly an agricultural country, there would always be greater possibilities of fluctuation in her income from the Exports. While as the Imports are mainly from manufacturing countries, which are in a position to exert a greater influence on the price level—their prices will not have the same difference. In consequence, our real outlay in the purchase of Imports will remain indeterminate.

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3. The distribution of the present imports between various commodities is shown in Table II. It will be seen that the chief place is held by cotton and cotton piece-goods, and that the next in importance are—machinery and millwork, oils, metals and ores, grains, instruments and vehicles. These account for nearly 50% of the trade, the rest being distributed over more than 50 other categories. The more remarkable thing, however, is the place occupied by different countries in the supply of these articles. In iron and steel, machinery, hardware, instruments, papers, chemicals, provisions, vehicles, and cotton manufacture, the first place is occupied by the U. K. with almost half the share of the entire trade, while the second place is occupied by Germany in all the articles except the last two, where the rank goes to the U. S. A. and Japan, respectively. In silk manufacture and artificial silk, Japan occupies the dominant position with a trade of almost 70% to her share.

4. If we compare this position with one operating previous to 1914, we find that during these 25 years, considerable changes have occurred in the relative position of the various countries and commodities. Japan, which used to have a bare 2% trade with us, has now increased it to 12% mainly due to the cheapness of her textiles, and the emergence

of artificial silk. Similarly, the development of the motor car industry has increased the share of the U. S. A. from 3% to 7%. On the other hand, the development of the Textile, the Steel and the Cement industries has decreased the share of the U. K. from 60% to 30%. This change in the composition of the trade had also brought almost a change in the relative positions of the Empire and non-Empire countries.

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5. We trust that the difficulties that we had pointed out about Bilateral Agreements will now be better realised in the light of the above analysis. If our Imports were more evenly distributed among the various countries, it would not be impossible or costly to distinguish between one source of supply and the other. As shown above, as a matter of policy, however, if we decide to give concessions to countries like Germany, they will also have to be given to the U. K., otherwise, the price of a large part of our supplies will be increased without any corresponding advantage to us. But such a course will confer no particular benefit to Germany, as it will not protect it against its main competitor, the U. K. Similarly, in the case of the U. S. A., and Japan, where they occupy second places. It is probably still more so in cases where such countries occupy first places as suppliers. They would attach only an insurance value to the concessions we give them, precisely for the reasons for which we hold similar views regarding the concessions granted to us in the U. K. market.

6. What we have therefore already mentioned above, seems to be borne out by this analysis, and so long as the present dominant position of the U. K. in our market continues, we cannot think in terms of giving preference to any one country in particular. Our policy, therefore, should be towards resistance of any scheme of preference. As such a scheme could succeed only to strengthen the position of the

U. K' and to alienate other countries to whom we will not be able to give any substantial benefit. These considerations are, of course, strengthened by the fact that we will, in future, have to import large supplies of machinery and other articles for rapid industrialisation of the country.

7. We may mention that this in effect was the line taken up by the non-official Advisers to the Government of India, when they negotiated in 1937-38 for the trade agreement with the U. K.

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8. As already mentioned above, the composition of our import trade has been gradually changing. Articles tike cotton manufactures, iron and steel, cement, sugar, silk, toilet requisites, boots, and shoes, matches, soap, umbrellas and bangles have decreased in their imports. But raw cotton, artificial silk, bobbins, oils, vehicles, paper, dyes, chemicals, and rubber have been increasing. This change rather reflects the change which has been coming over the country with the growth of the Textile Industry, and its increasing attention to finer and better type of goods; as a result there has been a larger import of raw cotton, chemicals, dyes and artificial silk. Similarly the development of Iron, Steel, Cement, Sugar, Paper and Soap Industry have affected these imports, and now only fabricated iron and steel, special types af cement, and costlier types of toilet requitites are coming it. This development again has meant an increase in the import of machinery, belting and some of the oils. The growth of machine shops all over the country would probably explain the increase in the imports of various instruments and equipments, while the increase in the imports of Rubber, raw and manufactured, and motor vehicles, requires no explanation. We may. therefore, conclude that the present constituents of our Import Trade indicate a shift from goods which used to be final and meant for the consumers to primary or inter-

mediate goods, which could be worked upon in the country.

9. This will be better realised from the analysis given in Table III below: It will be seen that nearly half the imports are final products and are not meant for the fixed equipment of the industry. The rest consists of intermediate products which serve either as raw materials or stores for the various industries in the country. In the consumers' articles, the bulk is accounted for by various types of textile goods, cotton, woollen and silk, and household products like fuels, medicines, provisions, liquors, hardware, glassware, and cars. The intermediate products consist of metals and ores, paints and varnishes, cotton, silk and yarn, dyes, chemicals. packing and printing paper, paper making and leather making materials, cables, oil seeds, tea chests and fuel. As already mentioned, the imports of machinery are to the extent of about 15 crores,

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10. While care has been exercised in classifying various articles into these categories, the work has been limited by. the paucity of information that can be gathered from trade statistics. With greater scrutiny and more information, the classification would undoubtedly be more correct. We would, therefore, suggest the appoinment of a special committee whose duty it would be to examine these articles and classify them according to as they are near or far away from final consumption. In the meanwhile, however, we suggest that imports of goods which are meant for final consumption should be restricted as far as possible, We would, for instance, cite the cases of provisions, glassware, liquors, toilet requisites, etc., where a restriction will not impose a great privation on the public. On the other hand, articles like kerosene, spices. etc., which are consumed by the general masses and which form the necessity of life will have to be continued. Similarly, in the case of intermediate goods,

these goods must be replaced, wherever possible, by goods made in the country even though they be inferior in finish and lasting qualities.

11. A committee of the type suggested above would be more qualified to distinguish between these non-essential and essential goods. With the information at our disposal, we mention the following categories, where the goods are classified according to the increasing degree of immediate indispensability. Even regarding machinery, which would normally be considered indispensable in the present circumstances of the country, we feel that quite a small part should be consisting of spares which could be made inside the country. We are led to believe this because, as will be noticed from the figures given in Table IV, we continue to import machinery in the case of Cotton and Jute Textiles, Sugar and Cement. This could not, in many cases, be complete machines, as, for the present, these industries are fairly well developed. It is also known that on account of the lack of dependable machine shops in the country, most of the industries import their spare parts from outside.

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12. In making the above suggestion regarding a restriction of our imports, we have been to a certain extent influenced by what we have stated above in respect of the future of our export policy. Exports will operate as the primary limit to the size of our imports, and, since it appears to us that we may have to limit the size of our exports, till we have been able to modify our economy to offer more suitable ones, we are naturally inclined towards a restriction of the Imports.* At the same time, we have advisedly described the above limit as only the primary limit, because if it is felt that it would be to our advantage to increase the size of the

* *See foot note on page 209*

essential imports, so as to have ultimately a larger income, the entire situation would be changed. Then the necessity of the imports would govern the whole position, and there would be no limit to the forcing up of our exports, except a theoretical one like the "total squeezability". This, however, would be a matter of decision in the hands of a body of people having a more complete picture of the situation than we have, and we can only suggest that any decision in respect of this would be on a proper balancing of the gains and the losses.

13. We have, however, another consideration also in making the above suggestion for restricting the Imports, The country will have to make a stupendous effort to increase the present national income, and such an effort will necessarily involve a considerably larger outlay in capital equipment.

* *India is a country which under the present circumstances must have a favourable merchandise trade balance in order to meet the foreign obligations. Not only that, but I feel that even after India is free and independent there will still continue to be a necessity for having a merchandise trade balance. India will have to continue to pay the foreign obligations on the one hand till they are all fully paid up and also will have to continue to import to the same extent as it is now if not more. Of course the character of the imported articles will change materially but importing will have to be continued and for these imports payments will have to be made, which can only be made by exports. What I wish to convey is that any idea to limit exports after India is free and independent will not be a proposition in favour of Indian economy. If India is to advance and expand industrialisation imports of large values will have to be made and will have to be paid. I am not against shaping India's economy and making necessary adjustments according to internal requirements. But unless and until exports are allowed freely to be continued to pay for the foreign obligations and for imports, the industrialisation will be handicapped and delayed.*

(Sd) Chunilal B. Mehta.

This could be built up only if a part of the current consumption is saved and the rest spent in accordance with the plan of development. To the extent that our current income is spent on Imports, which are non-essential, it serves neither of the above ends and should be diverted to other fields.

14. We are aware that any indiscriminate application of the suggestion we have made would impose a great deal of hardship both on the consumer, and on the industries. It was to avoid this that we stated that the actual selection of the commodities should be left to a committee of experts.

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15. It is obvious that a properly arranged scheme of restriction will tend to foster the growth of industries inside the country. The way in which that growth should be achieved with our present policy of protection, the sequence of importance in which the various industries should be permitted to grow, and other matters connected with such a development are outside our scope. But we may mention two points, which follow from the general line of enquiry we have pursued. In the first place, some sort of discrimination in permitting various industries to grow up will have to be continued, as otherwise, it would mean a waste of our current resources. Secondly, in the initial stages, we will have to be conservative regarding the relative position of industry and agriculture. Since the industrial section is always more vocal, there is a danger that the growth of new industries may be utilised to increase the disparity which already exists between the industrial and agricultural prices and incomes. It will be perhaps more necessary to guard against this, as any change in our present scheme of exports is likely to depress the agricultural prices.

TRADES SUB-COMMITTEE

Table I. (Ref. P. 21, App. II. B)

Value of Merchandise during the last five years with Quinquennial Averages for the past seventy years.

(Figures in lakhs Rs.)	Merchandise		
	Imports	Exports	Excess of Exports over Imports
Quinquennial averages :—			
1869-70 to 1873-74	33,04	56,25	23,21
1879-80 to 1883-84	50,16	79,08	28,92
1889-90 to 1893-94	70,78	104,99	34,21
1899-1900 to 1903 04	84,68	124,92	40,24
1909-10 to 1913-14	151,67	224,23	72,56
1919-20 to 1923-24	267,05	306,38	39,33
1929-30 to 1933-34	161,14	198,60	37,46
In the year 1933-34	117,30	151,17	33,87
1934-35	134,58	155,50	20,92
1935-36	152,01	154,54	2,53
1936-37	144,08	192,41	48,33
1937-38	177,23	189,77	12,54

Table II. (Ref. p. 21, App. II. B)

IMPORTS OF MERCHANDISE

The following table shows the comparative importance of the principal articles imported into British India:—

	Imports 1938-39 (in thousands of Rupees)	Percentage on total imports of merchandise in 1938-39.
Cotton & Cotton goods	22,66,20	14,88
Machinery and millwork	19,04,78	12,50
Oils	15,62,41	10.26
Grain, pulse, and flour	13,76,46	9,04
Metals and ores	10,86,52	7,13
Vehicles	6,68,26	4.39
Instruments, apparatus & appliances	5,85,27	3,84
Paper and pasteboard	3,22,93	2,12
Dyeing and tanning substances	3,11,20	2,05
Chemicals	3,05,29	2,01
Wood & Timber	2,86,69	1,88
Wool, raw and manufactured	2,81,90	1,85
Spices	2,63,43	1,73
Hardware	2,57,27	1,69
Provisions and oilman's stores	2,48,41	1.63
Artificial silk	2,23,62	1.47
Drugs and Medicines	2,23,53	1,45
Liquors	2,10,83	1,38
Silk, raw & manufactured	1,94,15	1,27
Rubber manufactures	1,40,56	0,92
Fruits & Vegetables	1,34,43	0,88
Glass and glassware	1,25,12	0,82
Precious stones and pearls unset	1.15,03	0,75
Manures	1,05,17	0,69
Tobacco	1,04,55	0,69

Table II—Contd.

IMPORTS OF MERCHANDISE

(in thousands of rupees)	Imports 1938–39	Percentage on total imports of merchandise in 1938-39.
Tea Chests	90,30	0.59
Paints & painters materials	88,99	0.58
Stationery	67,04	0.44
Toilet requisites	66,06	0.43
Building & Engineering materials	62,18	041
Books printed etc.	59,62	0·39
Arms, ammunition & military stores	50,17	0.33
Belting for machinery	49,11	0.32
Apparel	47,50	0.31
Haberdashery and millinery	46,52	0.31
Sugar	45,58	0.30
Clocks and watches and parts	42,63	0.28
Earthenware and porcelain	39,19	0.26
Bobbins	37,92	0.25
Salt	37,80	0.25
Toys and requisites for games	37,30	0.24
Tallow & Stearine	32,10	0.21
Animals living	30,72	0.21
Gums and resins	30,13	0.20
Paper making materials	27,39	0.18
Cutlery	25,64	0.17
Matches	23,52	0.15
Soap	22,44	0.15
Flax, raw & manufactured	17,96	0.12
Furniture and cabinetware	15,95	0.10
Tea	15,73	0.10
Boots and Shoes	15,45	0.10
Umbrellas and fittings	14,87	0.10
Jewellery, also plate of gold and silver	8,25	0.05

Table II—Contd.

IMPORTS OF MERCHANDISE

(in thousands of rupees)	Imports 1938-39	Percentage on total imports of merchandise in 1938-39.
Coal and coke	8,05	0.05
Fish (excluding canned fish)	6,89	0.05
Jute and jute goods	5,93	0.04
All other articles	7,63,53	5.01
	152,32,77	100.00

Table III.

IMPORTS IN THE YEAR 1936—1937

(In thousands of Rupees)

Name of the Commodity	Direct human consumption	Intermediate use	For mechanical purpose
Apparel	4870		
Hats	1400		
Secondhand Clothing	800		
Total of all Apparels	7972		
Arms	6600		
Asbestos		1338	
Beltings		4595	
Bobbins		2243	
Books	5703		
Boots and Shoes	2119		
Brushes and Brooms		1342	
Bricks	2,26		
Cement		1880	
Tiles		971	
Buttons	2146		
Chemicals:			
Acids		915	
Ammonia & Salts		1094	
Bleaching Materials		949	
Calcium Compounds		686	
Copper Sulphates		329	
Disinfectants	677		
Lead Compounds		111	
Magnesium Compound		426	
Pottasium Compound		1138	
Sodium Compound		11443	
Sulphur Brimestone		2185	

Table III—Contd.

Name of the Commodity	Direct human consumption	Inter-mediate use	For mechanical purposes
Zinc Compounds		862	
Other Chemicals		6008	
Total of Chemicals		27219	
China Clay		879	
Clocks and Watches	4037		
Coal and Coke		1518	
Cordage		906	
Cork		472	
Cutlery	2858		
Drugs and Medicines	20683		
Dyeing and Tanning susbstances		30134	
Earthenware and Porcelin			
Domestic	1918		
Electrical		2434	
Fireworks	756		
Electroplatesware	226		
Fish	1780		
Fruits and Vegetables	14169		
Furniture and Cabinet ware	2145		
Glass and Glassware:			
Bangles	2802		
Beads	1215		
Bottles		2355	
Funnels and Globes	578		
Scientific Glassware		151	
Sheets and Plateglass	2143		
Tableware	451		
Other Glassware	3075		

Table III—Contd.

Name of the Commodity	Direct human consumption	Inter-mediate use	For mechanical purposes
Grains, Pulse and Flour	7201		
Gums and Reisins		2311	
Hairs and Manufactures of Hair	227		
Hardware:			
Agricultural Implements			238
Builders' Hardware		2265	
Domestic Hardware	1056		
Enamel Ironware	1480		
Implements and Tools		4530	
Lamps	4355		
Metal Lamps	669		
Parts of Lamps	334		
Stoves	473		
Other Hardware	13209		
Hides and Skins		1203	
Electric Fans	3515		
Electric Wires and Cables	4357		
Telegraph and Telephone Wires		357	
Bare Copper Wire		1452	
Telephone and Telegraph Instruments		1919	
Electric Lamps	1249		
Torches	323		
Accessories of Elec. Lamps	1402		
Batteries		2573	
Accumulators		637	
Meters		1138	
Electro Medical Apparatus		363	

Table III—Contd.

Name of the Commodity	Direct human consump-tion	Inter-mediate use	For mecha-nical pur-poses
Switchboard		310	
Other Electrical Goods		2986	
Musical Instruments	1045		
Talking Machine	1543		
Optical Instruments	772		
Photographic Instruments		8964	
Cinema Films		4863	
Scientific Instruments		1421	
Surgical Instruments	1378		
Wireless Apparatus	3520		
Ivory	840		
Jewellery	1442		
Lac	1576		
Leather & Leather goods		5110	
Liquors, Spirits and Wines	23961		
Railway Oil Engines & parts of Oil Engines			379
Railway Steam Engines & parts thereof			975
Railway locomotive Engines and tenders and parts thereof			4625
Other Gas Engines & parts thereof			120
Other Oil Engines for other purposes and parts thereof			7868
Other Steam Engines for other purposes and parts thereof			1324
Electrical Machinery other than apparatus, appliances and parts thereof			25517

Table III—Contd.

Name of the Commodity	Direct human consump-tion	Inter-mediate use	For mechanical pur-poses
Other Machinery excluding prime movers and electrical machinery			22540
Manures	8007		
Matches	48472		
Mats and Mattings	529		
Metals:			
Alluminium		4343	
Antifriction		186	
Brass and Bronze		9953	
Copper		8050	
Ferro Alloys		234	
German Silver		1419	
Iron and Steel		51028	
Lead		533	
Quick Silver		175	
Solder		426	
Tin		5949	
Zinc or Spleter		5348	
Mica		70	
Oils		72527	
Oil Cloth and Floor Cloth	645		
Paints and Painters materials	9683		
Paper	24627		
Pasteboard		3540	
Paper making materials		1464	
Paraffin wax	155		
Perfumery	223		
Pitch Tar		242	
Plants	193		
Polishes	2519		

Table III—Contd.

Name of the Commodity	Direct human consumption	Intermediate use	For machanical purposes
Precious Stones & Pearl	9761		
Printing & Lithographic machinery & materials			3526
Prints, Engravings & Picture	287		
Provision & Oilmen's stores	32021		
Rubber		204	
Rubber manufactures		21124	
Salt	6048		
Seeds	11327		
Shells and Lowers	100		
Smoker's requisites	341		
Soap	2685		
Spices	18775		
Starch, Farina & Dextrine		4419	
Stationery	7517		
Stones and Marbles		783	
Sugar	2391		
Tallow and Stearine		3570	
Tea	1815		
Teachests		5626	
Telegraph materials		213	
Cotton		58467	
Twist and Yarn } Cotton manufactures }	174830		
Flax munufactures	1701		
Haberdeshery & millinery	6434		
Hemp		583	
Hemp manufactures	119		
Jute ,,	918		
Silk ,,	24186		
Wool Raw		5952	

Table III—Contd.

Name of the Commodity.	Direct human consumption	Intermediate use	For mechanical purposes
Wool Manufactures	22741		
Artificial Silk Yarn		9939	
Manufactures of Artificial Silk and other manufactures mixed with Artificial silk	26618		
Tobacco	6082		
Toilet requisites	6724		
Toys and requisites for games	4352		
Umbrella and Umbrella fittings	1940		
Vehicles & parts thereof	65776		
Wax		159	
Wood and Timber		4901	
Total of the above commodities	698818	426677	67112

Table IV. (Ref. P. 23, App. II. B)

	1936-37	1937-38	1938-39
		(In Lakhs of Rupees)	
Prime-movers	1,55	1,70	1,87
Electrical	2,46	2,69	3,72
Agricultural machinery	11	11	14
Boilers	80	1,17	1,40
Metal working (chiefly machine tools)	28	36	39
Mining	10	17	25
Oil Crushing and refining	20	23	44
Paper Mill	8	45	28
Refrigerating	14	28	14
Rice and flour mills	6	9	7
Saw Mill	3	4	4
Sewing & Knitting machines & parts	54	82	57
Sugar machinery	94	69	61
Tea machinery	15	21	23
Cotton machinery	1,80	2,92	2,67
Jute mill machinery	74	1,06	71
Wool machinery	3	3	2
Typewriters, including parts & accessories	19	22	15
Printing & Lithographing presses	18	23	19
Belting for machinery	42	60	49

APPENDIX IIIA

A NOTE ON INDIA'S BALANCE OF PAYMENT

By Prof. J. J. ANJARIA

The maintenance of an even balance of payments for a country is a matter primarily of adopting the right currency policy, taking into account all the diverse factors which affect the demand for and supply of one country's currency in terms of that of another. It must therefore be emphasised that the rate of exchange at which our currency is stabilised —if it is so stabilised at all—in terms of gold or of any other currency exerts a profound influence on our balance of payments; firstly, by altering the merchandise balance of trade, and, secondly, by influencing the movements of short-term capital. Fundamentally, therefore, the consideration of the problem of maintaining our balance of payments belongs to the sphere of the sub-committee which deals with Currency. If, as is likely, we seek to follow the policy of stabilising our internal price-level, and if, as is also likely, the different countries of the world we have to deal with, follow a similar policy after the end of the war, the devices of exchange control and payments agreements, which we are at present tempted to assume as rather temporary palliatives, would be further

developed in the interests of each country's balance of payments.[1] This will raise the question of what India's currency policy should be in the interests not only of her internal economy but also of the external obligations. In view of these considerations, we do not feel that it is possible for us at this stage and in this context to define our long-range policy regarding the balance of payments. Not only are there so many uncertain world factors to be taken into account, but the question obviously involves issues which lie outside our scope here. In this chapter we make an attempt to indicate the general nature of our balance of payments' position, and the possible changes in the direction of some of the items in the same.

The Merchandise Balance of Trade:

An excess of merchandise exports over imports has been a conspicuous feature of India's foreign trade all through, and the persistence of the same has been sought to be explained in terms of the political 'drain' to England in view of our relationship to that country. Table I below reproduced from the Review of the Trade of India (1938-39) gives figures for our merchandise exports and imports, and our balance of trade during the five years ending 1938-39 with quinquennial averages for the past seventy years. It is important to note that whereas the average 'favourable balance' was Rs. 72.56 crores for the pre-war quinquennium, and Rs. 66.58 crores for the war quinquennium, it declined to Rs. 39.3 crores in

[1] *Though of course, they do not end with that, "Exchange control not only limits international lending and world trade in general, but also twists and raises the price structure of the country applying it in such a way as to reduce its export capacity in world markets, ...requires an extremely high degree of state interference with, and control of, all branches of economic life".—League of Nations Report on Exchange Control.*

the post-war quinquennium, and, except for the 1924–25 to 1928–29 period, when it was Rs. 102.5 crores, it has been consistently low during recent years, being only Rs. 14.46 crores in 1938–39. If our liabilities in the external balance-sheet had declined correspondingly, there would be nothing extraordinary or alarming about this decline. The fact, however, is that our liabilities by way of Home Charges, freights, banking and insurance charges, etc. are more or less independent of the variations in relative prices, and we have to find credit items to counterbalance them.* As will be clear presently our gold exports since 1931 have come in very handy for the purpose. Here it is necessary to state that the peculiar character of our merchandise exports and imports is a factor that weakens our position vis-a-vis the balance of payments. On the export side, we rely mainly on a few commodities like jute, cotton, tea and oil-seeds, which in 1938-39 accounted for nearly 67.5% of the total value of our exports. Our imports being mainly manufactured goods show a greater heterogeneity in their composition.[1] It would be hazardous to venture any definite statement as to the elasticity of the foreigner's demand for our exports and the elasticity of our demand for imports from foreign countries. It is possible, however, that whereas a fall in the prices of

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* *The position has changed radically since the 15th of August, 1947.—Editor.*

[1] *The comparative importance of the principal articles imported into India can be judged from the following figures for 1938-39:*

Heads of Import	Percentage of total imports
Cotton and cotton goods	*14.88*
Machinery & millwork	*12.50*
Oils	*10.26*
Grain, pulse & flour	*9.04*
Metals and ores	*7.13*
Vehicles	*4.39*
Instruments, apparatus & appliances	*3.84*

manufactured goods such as we import is likely to make us increase our total outlay on these goods, it would be difficult for us to evoke a similar response on the part of foreigners by means of a diminution in the prices of raw materials such as we export. Even if, as a result of the Plan, we lower our production costs substantially, it is very doubtful if we can secure any substantial increase in our merchandise balance by stimulating our exports.

Export and Import of Treasure:

One of the items that until recently liquidated a part of our credit on merchandise account was the import of treasure. Since 1931, the position has been changed radically in that our exports of gold now go to add to our merchandise balance on the credit side. Table II below shows the imports and exports of treasure as well as of gold separately during the the last five years with quinquennial averages for the past seventy years. The total visible balance of trade, including merchandise and treasure, can be seen from the following table:

Balance of Trade of India. (In lakhs of Rs.)

Average of 5 years ending

	1913-14	1918-19	1923-24	1928-29	1933-34
Balance of Trade in Merchandise (private)	78,27	76,31	53,14	1,12,80	42,76
Balance of transactions in treasure (private)	-36,08	-10,80	-26,12	-50,41	25,44
Total visible balance of trade	42,19	65,51	27,02	62,39	68,20

	1934-35	1935-36	1936-37	1937-38	1938-39
Balance of Trade in Merchandise (private)	23,42	5,11	51,19	15,88	17,56
Balance of transactions in treasure (private)	52,54	35,41	13,71	14,36	11,88
Total visible balance of trade	75,96	40,52	64,90	30,24	29,44

Value of Merchandise and Treasure, and Gold separately, during the last five years, with Quinquennial Averages for the Past Seventy Years.

	Merchandise	Treasure	Gold
	Excess of Export over Imports	Net Imports	Net Imports
1914-15 to 1918-19	66,58	31,77	7,88
1919-20 to 1923-24	39,33	39,90	20,99
1924-25 to 1928-29	102,49	49,54	33,50
1929-30 to 1933-34	37,46	-28,88*	-30,72*
In the year 1935-36	2,53	-37,06*	-37,32*
1936-37	48,33	-13,60*	-27,85*
1937-38	12,55	-15,06*	-16,33*
1938-39	14,46	-11,96*	-13,06*
1939-40	44,13	-34,15*	-34,67*

Note—Government transactions are included in this Table.

** Net exports,*

Total Visible Balance of Trade.

(in lakhs of Rs.)

Pre-war average	War average	Post-war average	1937-38	1938-39	1939-40
25,36	27,51	13,83	7,84	11,08	39,50

Since the exports of gold cannot continue forever, and since India's requirements of gold for industrial purposes are under normal circumstances fairly large, we should be prepared not merely to see gold disappear from the credit side, but figure on our debit side, and this must only increase the necessity for securing a larger favourable balance of trade in merchandise. In other words, with the withdrawal of the adventitious aid of gold exports, the task of maintaining our balance of payments would appear more difficult than ever.

Imports and Exports of Capital:

If it is possible to borrow capital from abroad on the desired scale, a negative balance on income account would not matter, for the imports of capital on the credit side of our balance of payments would compensate for the same. It is well-known that during the latter part of the nineteenth century, and probably up to the end of the last world war, we imported considerable amounts of capital, and were thus able to maintain an equilibrium in the balance of payments. The statistics of export and import of capital are not directly available, but various attempts have been made to arrive at some estimates on the basis of available evidence. While we do not put forward any estimate as quite dependable, we give in Table III below for reference Mr. S. V. Pandit's estimate of the inflow of British capital to India each year during 1898–99 to 1913–14. These figures show considerable variations from year to year; but there is no doubt that we had a substantial credit balance up to the war-period on this score. Similarly, between 1914 and 1920, Prof. Shah has pointed out that the credits due to India for expenses defrayed by her Government on account of the British Government aggregated to £300 million in round figures.* The nineteenth century and the early years of the present one represent a

*See foot note on page 230

period of free capital movements, and countries having a surplus merchandise balance were generally ready to lend capital abroad so as to help the countries with a passive balance.* But after the onset of the world depression, and the development of bilateralism in trade relations, the flow of international lending has practically dried up.§ Table IV reproduced from the League of Nations Report on 'Balances of Payments gives the balances on account of goods, services and gold, and also, on capital account from 1923-24 onwards. Since 1931-32, there appears a negative balance on known capital items except for 1937-38, for which the positive balance is small, suggesting a net outward flow of capital, but since there are unrecorded exports and imports of capital on private account, we cannot come to any definite conclusion on this point, though there is a strong presumption that during recent years we have been paying off some of our debts. The following figures showing the Government of India's Sterling Debt from 1909-14 is also indicative of the same trend:

(Amount of Debt in millions of £s)

Average	for	1909-14	176.6
„	„	1914-19	192.6
„	„	1919-24	219.3
„	„	1924-29	343.3

* *The position has been radically changed during World War II, where the whole of India's Sterling Debt was paid off or repatriated, while a heavy credit balance in India's favour was built up in the shape of the so-called Sterling Balances. Whether any portion of these credits, aggregating over 1500 crores, will ever be realised is another question.—Editor.*

§ *As the League of Nations Report on Balance of Payments (1937) puts it: "A true international capital market accessible to different groups of debtor countries hardly exists. Since the middle of 1928, there has been a clear tendency in the creditor countries to confine lendings to countries with which they are closely related by political ties".*

		(Amount of Debt in milions £)
Average for	1929–30	363.6
„ „	1930–31	387.9
	1931–32	379.0
„ „	1932–33	378.1
„ „	1933–34	383.1
„ „	1934–35	383.7
„ „	1935–36	376.2
„ „	1936–37	357.3
„ „	1937–38	350.9
„ „	1938–39	348.7

In the years to come, India will probably be on balance a capital exporting country rather than a capital importing country. Fresh capital may be raised abroad by the Government as well as by corporations from time to time, but the Planning Authority will probably have to make provision in the near future for a gradual repayment of our debts.

It appears, then, from the tendencies reviewed so far, that our problem under the Plan is going to be one of securing an equilibrium in the face of (a) a smaller 'favourable' balance on merchandise account, (b) a negative balance on account of treasure, and also (c) a negative balance on account of capital transactions. We shall realise the seriousness of the problem when we add to this the fact that we have at present heavy liabilities on account of Home Charges and other 'invisible imports'. On the one hand, we have to attempt at creating a larger export surplus on merchandise, and, on the other, we have to take steps to reduce our liabilities on these 'invisible items'.*

Home Charges:

The large amount India has to pay by way of Home Charges to England has always dominated Government policy

* *This is also materially changed since August 15, 1947.—Editor.*

in regard to finance and exchange. In Table V are given the figures showing our Home Charges from the pre-war period up to 1938-39. This figure of Rs. 32 or 33 crores annually includes expenditure on Railway Revenue Account, Debt Services, Civil Administration, Defence Services, Pensions and Allowances, etc. The following figures for 1936-37 will give an idea of the magnitude of each of these items:

Heads of Account	**Expenditure** (in crores of Rs.)
Railway	12.18
Defence Services	10.92
Civil Administration	2.16
Debt Service	7.23
Pensions and Allowances	3.36
Others	.74
Total	36.59

A considerable saving can be effected on these items when the question of the fair adjustment of the financial obligations between India and Britain is settled. We do not think it would be profitable to raise the question whether the moneys borrowed in England for the construction of railways, for irrigation, books etc., have been really productive, and whether the terms on which they were borrowed have always been fair. But there is no doubt that the policy of Indianisation, which a free India will follow, coupled with a policy of drastic retrenchment on civil and military expenditure, the only liability that will remain to be shouldered will be by way of the payment of interest on capital borrowed. If we may make a rough guess, the Home Charges could easily be reduced to half the present figure when India comes into her own.§

§ See foot note on page 233.

Freight Payments:

Another item on which India has to pay foreigners is freight payments. These, of course, do not figure separately in our balance of payments, because our imports are entered at c. i. f. value. The fact remains, however, that most of the foreign trade and a considerable part of our coastal trade are in the hands of foreign shipping companies. Freight payments on our imports in the year 1913-14, according to Mr. Pandit's calculations (in his 'India's Balance of Indebtedness,' p. 46), amounted to Rs. 13 crores. In Table VI we give figures from the Statistical Abstract showing the number and tonnage of ships of various nationalities which sailed into or out of Indian harbours in the year 1932-33. The fostering of an adequate Indian mercantile marine, not only for commercial purposes, but also as a second line of defence is an obvious measure of national policy to which the Planning Authority will certainly pay attention. The sooner we are able to supply our own shipping services, the better will the position be from the point of view of our balance of payments.

Banking and Insurance Commissions:

Here again we have no statistics to show the precise magnitude of our liability abroad on account of our dependence on foreigners for these services. In the absence of precise information, we would merely point out here that the monopoly of exchange banks has been felt by Indian business houses as a great handicap to them in the matter of financing Indian trade. The Planning Authority must take steps to see

§ *With the disappearance of the charges on account of the Sterling Debt, as also on account of the War Office, the "Home Charges" will be lowered to vanishing point after August 15, 1947.—Editor.*

that indigenous enterprise is fostered in this direction, and that the foreign vested interests are not allowed perpetually to hinder the broad national interests. This, of course, raises the question of commercial discrimination in regard to which the Governor-General has, under the 1935 Act, special responsibilities.

Conclusion:

To conclude this survey: There is an urgent necessity for a comprehensive policy aiming at a strengthening of our balance of payments' position, not only by means of encouragement to our export trade wherever possible, but also by effecting substantial reductions in our external liabilities by substituting our own services in place of the services of foreigners. The whole question of the import of fresh capital, the payment of interest on old capital, as well as the mode of settling such payments in future must be entrusted to the Reserve Bank when it becomes a truly national institution.§ For, as we said at the outset, the maintenance of the balance of payments is a question of monetary policy, and it is but right that the country's national Central Banking Authority should be entrusted with the duty of negotiating loans and repayments of capital in the interests of the nation as a whole, which means that the lending and borrowing of capital on private account will have to be strictly regulated.

§ *The Reserve Bank of India has been nationalised since April 1, 1947; and is functioning as a national institution in the sense intended above. Its reorientation in basic policy, as the Central National Monetary Institution of the country with a wholly socialised economy, has yet to come. Nationalisation of such institutions, while the rest of the banking and credit machinery of the country remains still in private hands, will not yield all the benefit the country is legitimately entitled to expect.*

—Editor.

For Table I see p. 211. The figures there end with 1937-38 and begin with 1869-70.

Table II

Imports and Exports of Treasure as well as of Gold separately during the last five years with quinquennial averages for the past seventy years.

	Treasure			Gold		
	Imports	Exports	Net Imports	Imports	Exports	Net Imports
Quinquennial average—						
1864-65 to 1868-69	17,62	1,80	15,82	6.15	32	5,83
1869-70 to 1873-74	8,26	1,59	6,67	3,26	19	3,07
1874-75 to 1878-79	9,86	2,81	7,05	1.68	1,04	64
1879-80 to 1883-84	11,66	1,33	10,33	4,23	10	4,13
1884-85 to 1888-89	13,62	1,64	11,98	3,41	33	3,08
1889-90 to 1893-94	17,92	3,68	14,24	4.12	2,02	2,10
1894-95 to 1898-99	14,89	6,40	8,49	5,48	3,23	2,25
1899-1900 to 1903-04	26,01	11,65	14,36	13,00	6,82	6,19
1904-05 to 1908-09	36,15	9,90	26,25	16,85	7,50	9,35
1909-10 to 1913-14	47,20	8,32	38,88	32,79	4,64	28,15
1914-15 to 1918-19	39,07	7,30	31,77	12,14	4,26	7,88
1919-20 to 1923-24	53,16	13,26	39,90	31,24	10,25	20,99
1924-25 to 1928-29	53,68	4,14	49,54	33,68	18	33,50
1929-30 to 1933-34	13,38	42,26	-28,88*	6,54	37,26	-30,72*
In the year—						
1934-35	5,19	63,51	-58,32*	72	53,26	-52,54*
1935-36	7,84	44,90	-37,06*	99	38,31	-37,32*
1936-37	16,40	30,00	-13,60*	1,61	29,46	-27,85*
1937-38	4,71	19,77	-15,06*	1,56	17,89	-16,33*
1938-39	3,24	15,18	-11,94*	75	13,80	-13,05*

**Net Exports.*

Table III

The Inflow of British Capital to India every year during 1898-99 to 1913-14

(In lakhs of Rs.)

Year	Net Amount of Sterling Loans Raised by the Government	Other Loans Publicly Raised in London	Total
1898-99	149	375	524
1899-1900	- 18	405	387
1900-01	1,393	855	2,248
1901-02	131	240	371
1902-03	423	360	783
1903-04	-612	315	-297
1904-05	- 23	570	547
1905-06	2,035	525	2,560
1906-07	160	75	235
1907-08	1,344	300	1,644
1908-09	673	1,374	2,047
1909-10	1,370	1,027	2,387
1910-11	1,184	1,032	2.216
1911-12	73	529	602
1912-13	105	455	560
1913-14	-317	785	468

Table IV

Summary Table showing the Balance of Payments on each series of transactions.

Rupees (000,000's)

		Goods, Services and Gold.					Known Capital Items.			
		Merchandise	Interest & dividends.	Other services.	Gold.	Total.	Long-term.	Short-term.	Total.	All Items.[1]
1923-24	Balance	+1,105.3	-323.7	-433.0	-292.1	+ 56.5	+221.0	- 10.5	+210.5	+267.0
1924-25	Balance	+1,176.6	-317.8	-333.7	-738.8	-213.7	-122.5	- 0.3	-122.8	-336.5
1925-26	Balance	+1,190.5	-289.9	-364.8	-348.6	+187.2	-165.3	+ 3.3	-162.0	+ 25.2
1926-27	Balance	+ 351.0	-297.8	-347.2	- 94.0	-488.0	+383.8	- 0.5	+383.3	-104.7
1927-28	Balance	+ 513.4	-314.4	-347.0	-181.0	-329.0	+146.8	- 65.5	+ 81.3	-247.7
1928-29	Balance	+ 665.0	-324.7	-312.2	-212.0	-183.9	+ 5.2	+ 7.1	+ 12.3	-171.6
1929-30	Balance	+ 538.1	-316.0	-180.1	-142.2	-100.2	+133.2	+ 41.2	+174.4	+ 74.2
1930-31	Balance	+ 371.3	-335.8	-159.1	-127.6	-251.2	+432.2	- 53.3	+378.9	+127.7
1931-32	Balance	+ 222.6	-347.6	-179.4	+579.7	+275.3	+117.6	- 86.8	+ 30.8	+306.1
1932-33	Balance	- 54.7	-344.1	-161.6	+655.2	+ 94.8	- 65.0	- 81.5	-146.5	- 51.7
1933-34	Balance	+ 270.9	-339.2	-121.9	+570.5	+380.3	-215.5	- 96.2	-311.7	+ 68.6
1934-35	Balance	+ 112.6	-325.1	-139.4	+525.4	+173.5	- 86.7	-105.6	-192.3	- 18.8

1. *See foot note on page 238.*

Table IV—(*Continued*)

Summary Table showing the Balance of Payments on each series of transactions.

Rupees (000,000's)

	Goods, Services and Gold.					Known Capital Items.			All Items.[1]
	Merchandise.	Interest & dividends.	Other services.	Gold.	Total.	Long-terms.	Short-terms.	Total,	
1935-36 Credit	1,821.3	16.3	116.1	383.1	2,336.8	...	...	134.3	2,471.1
Debit	1,627.5	336.5	275.8	9.5	2,249.3	...	...	255.4	2,504.7
Balance	+ 193.8	-320.2	-159.7	373.6	+ 87.5	...	...	-121.1	- 33.6
1936-37 Credit	2,175.4	6.2	101.0	294.5	2,577.1	...	...	3.2	2,580.3
Debit	1,608.1	330.0	284.1	16.1	2,238.3	...	...	336.8	2,575.1
Balance	567.3	-323.8	-183.1	+278.4	+338.8	...	...	-333.6	+ 5.2
1937-38 Credit	2,050.2	8.3	100.9	178.9	2,338.3	...	...	169.4	2,507.7
Debit	2,050.4	310.0	282.2	15.6	2,658.2	...	...	116.4	2,774.6
Balance	- 0.2	-301.7	-181.3	+163.3	-319.9	...	...	53.0	-266.9

1. *The balance in this column are due to unrecorded (private) capital transactions and possible errors and omissions in the account for goods, services and gold.*

Table V

HOME CHARGES

In the following figures the rate of exchange till 31-3-1920 was 1 s. 4 d. to a rupee. Between 1-4-1920 and 31-3-1927 the rate was 2 s. and thereafter 1 s. 6 d. to a rupee.

Year	Home Charges at the Official rate of exchange. (In crores of Rs.)
1909-14 (Average)	29.5
1914-19 (Average)	33
1919-24 (Average)	35.5
1924-29 (Average)	36.5
1929-30	42.1
1930-31	41.9
1931-32	41.2
1932-33	39.4
1933-34	38.5
1934-35	38
1935-36	38.1
1936-37	36.7
1937-38	33.7
1938-39	32.8

Table VI

1. Number and Tonnage of Steam and Sailing Vessels which entered with cargoes or in ballast at Ports in British India from foreign countries, distinguishing nationalities.

Nationalities	1932-33	
	Number	Tons
British	1,767	5,348,635
British Indian	197	51,726
Native	637	49,052
Foreign :		
American	41	224,844
Chinese	2	6,567
Danish	7	16,442
Dutch	70	229,525
French	21	112,763
German	96	420,142
Greek	5	13,989
Italian	121	597,881
Japanese	164	563,330
Norwegian	92	213,336
Russian	...	...
Swedish	16	48,055
Other Nationalities	5	6,495
Total Foreign	640	2,453,369

Table VI—*Continued*

2. Number and Tonnage of Steam and Sailing Vessels which cleared with cargoes or in ballast from ports in British India to foreign countries, distinguishing nationalities.

Nationalities	1932-33	
	Number	Tons
British	1,714	5,224,771
British Indian	212	62,058
Native	702	54,344
Foreign :		
American	44	235,184
Chinese	2	3,848
Danish	6	14,717
Dutch	75	240,305
French	16	86,448
German	95	419,215
Greek	3	8,685
Italian	123	603,691
Japanese	171	590,830
Norwegian	91	207,993
Russian	...	...
Swedish	15	45,358
Other Nationalities	5	7,303
Total Foreign	646	2,463,577

APPENDIX III B

INDIA'S LAND FRONTIER TRADE

It remains for us to offer a few remarks on one aspect of our external trade, namely, the land frontier trade. With the development of transoceanic communications, India's foreign trade developed rapidly with distant countries; and it assumed the character of the exchange of our raw materials with the finished products from industrially advanced countries. The trade across our frontiers has, therefore, been correspondingly neglected. It has been estimated at about 5 to 6% of our sea borne trade. India has an extensive land frontier of about 5800 miles, and some of these transfrontier countries have no direct access to the sea which is a factor of considerable importance for the future of our entrepot trade. The forest and mountain barriers which separate India from these transfrontier countries are a natural handicap to the further development of trade. The future possibilities will, therefore, naturally depend to a very great extent upon the further development of transport facilities.

Planning and Land Frontier Trade :

The future of land frontier trade under a planned economy for this country must depend upon the possibilities of exchanging in the main, the special products of this country with those of the transfrontier countries. There can be no question of exploiting these markets merely to dispose of our surplus products of industry, and entering into a competition in these markets not only with their indigenous products, but also with the products of countries like Russia and Japan. We should also have to take into account the natural desire on the part of these countries to develop their own resources and to foster the growth of their own industries.

Difficulties regarding Data :

We must say at the outset that our task of assessing the trends of our transfrontier trade, and of formulating our conclusions on that subject has been made very difficult by the paucity of data available; and also by the frequent changes in the method of collecting and presenting the data. We find that up to 1925 we get figures of transfrontier exports and imports from and to different countries. Since 1925 we have only record of rail borne traffic inwards and outwards at certain railway stations near the frontier. These places for registration are divided into three groups. It is estimated that the bulk of the inward traffic at these places is intended to be transported beyond the frontier, and the bulk of the outward traffic consists of goods which have come from beyond the frontier. Evidently it is not possible to specify the exact proportion of the frontier trade to the total trade registered at these stations. The division into three groups mentioned above makes it impossible to judge the precise magnitude of our trade with the various countries as such. Moreover, these figures included, until recently, our trade with the Shan States which are a part of Burma. The separa-

tion of Burma has created further complications. It it true that this separation does not alter the fundamental needs of exchange as between this country and the countries beyond Burma. But it does introduce a new factor, namely, the policy of the Burmese Government which would also have to be taken into account. Since 1937 our trade figures with respect to Afganistan are separately registered, and we have now available two reports of the Indian Trade Agent in Kabul. Even here it would be hazardous to venture any definite conclusion on the basis of rather scanty information yet available. There is also the further difficulty that whereas the earlier issues of the reviews of Indian trade give the values of imports and exports, the issues since 1926 give merely the quantities of various goods exported. On account of all these difficulties, and on account of the comparatively smaller importance of land frontier trade, we confine ourselves to offering a few comments of a general nature only. We feel that a proper policy in this regard will have to be formulated by the planning authority after a more thorough examination into the exact situation and the possibilities in regard to trade with the different countries beyond the frontier.

Main Trends in Land Frontier Trade:

Subject to the reservations above, we may judge the main trends of our land frontier trade from the following figures up to 1925.

Years	Imports	Exports	Net Imports
	(In lakhs of rupees)		
1913-14	12,02	9,42	2,60
Average of 5 years 1914-15 to 1918-19	13,38	11,49	1,89
1919-20	17,02	15,92	1,10
1920-21	18,16	15,81	2,35

Years	Imports	Exports	Net Imports
	(in lakhs of rupees)		
1921-22	17,17	13,12	4,05
1922-23	18,27	15,20	3,07
1923-24	19,95	16,27	3,68
1924-25	23,08	18,73	4,25

After this date we get the figures of imports and exports in terms of the quantities of various commodities and with reference to groups (a), (b), and (c) as mentioned above. The main items of import are grain and pulse, fruits, vegetables, nuts, rice, hides and skins, ghee, tobacco, raw wool, carpets and rugs, borax, raw jute, linseed, etc. On the export side we have cotton twist and yarn, cotton piecegoods foreign and Indian, dyes, dying materials, metals and manufactures thereof, sugar, tea, petroleum, salt, etc. It appears that the imports consist mainly of food stuffs and raw materials and some specialities. The figures of imports in terms of quantities show an almost continuous fall in practically all items except in the case of rice which has registered a small advance. On the export side while cotton twist and yarn shows a continuous fall from 93.5 thousand maunds in 1926-27 to 63.7 thousand maunds in 1936-37, the export of Indian piecegoods have risen from 236 thousand maunds in 1926-27 to 311.5 thousand maunds in 1936-37. The export of foreign piecegoods amounted to 379.3 thousand maunds in 1926-27; they were 181.4 thousand maunds in 1930-31, but have shot up again since then rising to 310 thousand maunds in 1936-37. The future of the trade in cotton piecegoods may well be taken as uncertain in view of the nationalist policies followed by some of these countries. The export of Indian sugar has shown a steady progress and there seem to be further possibilities in this direction. Tea is another speciality which India has been exporting and may possibly be able to export in larger quantities in future. In view of the comparatively undeveloped character of these transfrontier countries, there

may be further possibilities of mutually advantageous trade and the fact that we have on the whole an unfavourable balance of trade in regard to these countries would make them anxious to promote mutual trade. We recommend that the control of land frontier trade should be vested in the same body which under the planned economy controls and supervises Indian sea borne trade. We give below a table from the Review of Trade which shows the character of our land frontier trade during the past three years.

Imports

Articles	Quantity (in maunds) 1936-37	1937-38	1938-39
Wheat	203,001	326,223	174,958
Gram & Pulse	529,494	471,584	375,150
Rice			
Husked	1,185,484	1,585,035	1,703,084
Unhusked	434,401	436,795	402,915
Other grains, pulse & flour	680,591	1,125,189	1,088,920
Hides and skins	169,315	176,410	136,647
Tabacco	99,810	114,472	115,707
Wool, raw	263,562	177,542	190,324
Jute, raw (Nepal)	293,380	221,023	206,905
Linseed (from Nepal)	349,151	297,064	420,117
Mustard & rapeseed (Nepal)	386,939	352,579	325,729
Treasure	**Ounces**	**Ounces**	**Ounces**
Gold	6,644	2,142	3,644
Silver	663,080	272,777	196,583

Exports

Articles	Quantity (in maunds) 1936-37	1937-38	1938-39
Cotton piecegoods (Foreign and Indian)	621,465	615,487	619,843
Wheat	826,113	459,870	571,631
Rice, husked	606,317	614,821	517,503
Other grains pulse & flour	1,290,130	1,148,559	1,091,789
Iron and steel, including machinery, hardware and cutlery	515,088	369,782	481,888
Patroleum	393,957	510,453	553,422
Salt	1,517,143	1,626,887	1,628,150
Sugar, refined and unrefined	974,217	1,075,563	882,831
Tea	190,255	169,595	154,328
Tobacco	110,870	105,112	121,061
Treasure	**Ounces**	**Ounces**	**Ounces**
Gold	34,606	601	11
Silver	2,077,625	566,346	536,164

We may also say a word about the Indo-Afghan trade, the value of which including transit trade was Rs. 46.4 lakhs in 1938-39. The principal items of imports into India from Afghanistan are skins and furs and fruits, nuts and vegetables. In the case of exports foreign goods in transit accounted for 73.5% of the total exports in the year under review. The exports of cotton manufacture to Afghanistan in 1938-39 were valued at Rs. 26.3 lakhs which is slightly less than the figure for the previous year. The Indian exports of

woollen goods and sugar have an advantage in the Afghan market in regard to tea and to some extent in regard to cement and paper. Even here we should have to consider the effects of the Russo-Afghan Trade Agreement and the exchange control policy adopted by the Government of the country. "The aim of the Afghan Government", says the Report of the Indian Trade Agent at Kabul, "is to make Afghanistan as self-supporting as possible in the supply at least of cotton textiles, woollen goods and sugar". It is facts such as these which make it necessary that the situation in regard to our trade relations with transfrontier countries should be analysed in further detail by the Planning Authority in order to be able to arrive at dependable conclusions.

Land Frontier Trade and International Trade

The only point we want to emphasise here is that the future of our land frontier trade is bound up with the future of international trade in general and our foreign trade in particular. It may be that after the end of the war we may witness the formation of certain groups of countries into Zollvereins, which would follow a protectionist policy with regard to outsiders but a policy of friendly free trade as between the members. As India is a country of continental size and of diversified resources which make it possible for her to be the centre of such a group, the fostering of harmonious economic and political relations with these neighbouring countries may be a factor of paramount importance in our future policy. We put forward this suggestion for future investigation by the Planning Authority. The present war has already diverted our trade from European countries, and a need has risen of exploiting fresh markets elsewhere. The desirability of rapid development of transport facilities and of better commercial intelligence in respect of the transfrontier countries must assume greater importance in view of the possibility we have just suggested.

NOTE

(*bringing upto date*)

ON

INTERNAL TRADE*

As regards the section of our Report dealing with internal trade, we should like to make the following points :—

1. It is obvious that our estimate regarding the volume of internal trade and the present position and future possibilities of inter-provincial trade are based on information available when the report was drafted (about 1940). The figures given in the report and in the appendices may, therefore, be taken as only indicative of the general position. While during the last few years important changes have taken place in the economic system of the country, and the inflation of currency coupled with a variety of economic controls and other exceptional factors must have changed radically the total value of internal trade and of the various items entering into the same, there is no reason to believe that the general outlines of the picture as presented by us

* *This forms part of the Trade Sub-Committee report which has been approved by both the Chairman and Secretary of that Sub-Committee.*

and of the policy outlined in the Report needs to be substantially altered.

2. We should like, however, to draw attention to paragraphs 12 and 13 which deal with the question of the coordination of inter-provincial plans and policies. In these paragraphs we referred to the danger of a clash of interests, methods and ideals between different provinces left to themselves. We argued that, under a planned economy, there would be so many matters of common interests between the different regional authorities that we must think only in terms of the whole country as one economic unit; that while an attempt must be made deliberately to raise the level of life in the less developed provinces and regions, care must be taken to see that the requirements of different regions are properly adjusted in relation to the needs of the country as a whole. For this purpose, we suggested the setting up of an inter-provincial body like the Inter-State Commerce Commission in U. S. A. The experience of the war has greatly strengthened our point in this regard. The Bengal famine and the food difficulties in other parts of the country were, it is admitted by all, due to lack of inter-provincial co-ordination and adequate Central control. In other matters, also, the best development of Indian resources can be only achieved by treating the country as one whole, consistently, of course, with the full development of the potentialities of each region and unit. There has been a great deal of discussion on this matter, but it seems to us that the contrast usually presented between the centralised and decentralised forms of economic planning is unnecessarily overdrawn. Any practical scheme of planning will have to combine both the principles, so as to reconcile the interests of uniformity in conception and direction with a certain amount of flexibility and variety in execution and administration. There is no need to entertain the fear that the central planning authority will devote disproportionate attention to the development of regions already highly industrialized or other favoured regions. We should, therefore, reiterate our conclusion that

whatever the political or constitutional arrangements that may be made for the administration of free India in the near future, steps must be taken to secure a unified and well-coordinated policy for the country as a whole irrespective of its administrative or other division.

3. After para 19 we would add the following:—

The attempt made by us to estimate our internal trade and its distribution revealed serious deficiencies in our statistical material. In chapter IV, Appendix I, we referred to the inadequacy and imperfections of the available statistical data, which make it impossible for us to arrive at any precise conclusion regarding even the most important aspects of our internal trade. The deficiencies of Indian statistics in this, as well as in other branches have been commented upon by a number of committees; and it is not necessary for us to go over the same ground again. However, we should like to stress here our opinion that the compilation of all statistics regarding production, transport, trade, etc., should be brought under control so as to keep in view the purposive character of each kind of statistical information.

NOTE

(*bringing upto date*)

ON

INDIA'S EXTERNAL TRADE

In respect of external trade and the balance of payments it would appear that the changes in the factual situation as well as in point of view necessitated by the events of the war years are more far-reaching than in the case of internal trade. The following note tries to bring out these major changes, and emphasises their significance from the point of view of the general position taken up by us in the relevant sections of our Report.

1. The war has brought about large changes in the course of India's foreign trade; but on account of (a) the deficiencies of the available statistical information, and (b) the exceptional character of war-time factors, it is difficult to assess the long term significance of these changes.

2. The following table shows the value of India's exports and imports together with the balances of trade since 1938/39 :—

Table I

(In lakhs of Rupees)

Years	Exports including re-exports	Imports	Balance of trade in private merchandise
1938-39	1.69,21	1,51,83	+17,38
1939-40	2,13,57	1,64,76	+48,81
1940-41	1,98,69	1,56,72	+41,97
1941-42	2,52,88	1,72,86	+80,02
1942-43	1,94,70	1,10,39	+84,31
1943-44	2,09,99	1,19,05	+90,94
1944-45	2,27,07	2,00,99	+26,[illegible]

The figures of exports and imports do not reveal any immediate break in continuity as compared with the year or two before the war, and the last two years register an increase in the total volume of foreign trade. Actually, however, these figures conceal the large changes in the export and import prices during the war years; and thus fail to give a proper idea of the change in the real volume of trade. The following table gives comparative indices showing the quantum and price level of imports and exports during the war years:—

Table II

Original base 1927-28—100 Shifted to 1938-39—100

Imports

	1939-40	1940-41	1941-42	1942-43	1943-44
Quantum	102.0	81.3	74.2	37.6	39.9
Increase + or decrease —	+2 0	-20.3	-8.7	-49.3	+6.1
Price level	106.4	126.7	153.4	192.9	195.5
Increase or decrease	+6.4	+19.1	+21.1	+25.7	+1.3

Exports

	1939-40	1940-41	1941-42	1942-43	1943-44
Quantum	104.5	88.1	93.7	62.4	53.8
Increase + or decrease —	+4.5	-15.7	+6.4	-33.3	-13.8
Price level	119.8	130.3	155.9	184.6	227.4
Increase or decrease	+19.8	+8.8	+19.6	+18.4	+28.2

It appears from the above that, for the War period as a whole, the quantum of imports fell much more rapidly than the quantum of exports; and the price level of exports rose

much more than that of imports. The greater shrinkage in the imports relatively to the exports can be explained by the preoccupation of other countries with the War, and their absolute incapacity to export to this country. In the case of exports on the other hand, Government policy aimed at maintaining them in the interests of the Empire War Effort. In fact, as is well known, the exclusion of trade on defence account from Government publications underestimates to a considerable extent the volume of India's exports. The result has been the sharply rising favourable balances of trade as shown in Table I above. The total surplus accrued to India during the war years works out at Rs. 389.51 crores; and this has been one of the sources for the accumulation of sterling balances in England. It is noteworthy, however, that the import figures have been looking up since 1943/44; and that in 1944/45 the favourable balance of trade shrank to less than one-third of the previous year's figure.*

3. The following table shows the changes in the ratio of export to import prices up to 1943/44:—

1939/40	113
1940/41	103
1941/42	102
1942/43	96
1943/44	116

It will be seen from the above that although there has been on the whole an improvement in the terms of trade as shown by this ratio for the period as a whole, it has by no means been spectacular. In fact, for the years 1940/41 to 1942/43, the ratio of export to import prices shows a continuous decline. This probably reflects the fact that a large proportion of our exports was sold at controlled prices to

* *The unfavourable balance during the first eight months of 1945 worked out at Rs. 16 crores. For the whole year 1945-46 the balance was against to the extent of 72 lakhs; but in the next year, 1946-47, the balance was favourable to the extent of 41.03 crores.—Editor.*

special Governmental agencies.

4. The following table brings out the changes in the composition of India's exports and imports by the three well known categories of foodstuffs, raw materials and manufactures !—

Table III

Imports (In crores of Rupees)

Year	Food stuffs	Raw materials	Manufactures
1938-39	24.00	33.18	92.79
	(15.17)	(21.7)	(60.8)
1939-40	35.29	36.13	91.81
	(21.4)	(21.9)	(55.5)
1940-41	23.81	42.10	89.51
	(15.2)	(26.8)	(57.0)
1941-42	27.84	50.05	93.65
	(16.1)	(28.9)	(54.1)
1942-43	7.62	51.95	49.52
	(6.9)	(47.0)	(44.8)
1943-44	8.13	63.94	45.12
	(6.8)	(53.8)	(38.0)
1945	21.75	128.05	84.47
	(9.2)	(54.0)	(35.6)
1946	33.69	76.60	145.41
	(12.8)	(29.2)	(55.4)

Exports

Year	Food stuffs	Raw materials	Manufactures
1938-39	39.43	76.28	50.72
	(23.3)	(45.1)	(30.0)
1939-40	40.66	91.53	79.08
	(19.0)	(42.9)	(37.0)
1940-41	42.39	68.33	85.83
	(21.3)	(34.4)	(43.1)

Table III—Contd.

Export (In crores of Rupees)

Year	Food stuffs	Raw materials	Manufactures
1941-42	60.44	73.04	115.08
	(23.9)	(28.9)	(45.5)
1942-43	48.61	45.21	98.33
	(25.0)	(23.2)	(50.5)
1943-44	48.14	53.73	105.89
	(22.9)	(25.6)	50.4)
1945	53.25	75.75	105.31
	(22.3)	(31.7)	(44.0)
1946	58.43	104.49	135.78
	(19.2)	(34.4)	(44.7)

The table shows immediately the striking change in the composition of our external trade which has been referred to often as indicative of the growing industrialisation of the country. Thus, whereas in 1938/39 the percentage of manufactures imported into the country totalled 60.8, in 1943/44 it was only 38. The imports of foodstuffs declined from 15.7 to 6.8 per cent, of the total, mainly because of the stoppage of Burma rice, and the unavailability of food grains from other countries. The imports of raw materials on the other hand registered a sharp rise from 21.7% in 1938/39 to 53.8% in 1943/44. Similarly as regards exports, manufactures increased from 30 to 50.4 per cent, while foodstuffs accounted for about the same percentage, 23.3 in 1938/39 and 22.9 in 1943/44. It would, however, be too much to conclude from this that the change in composition is due to the progress of industrialisation during the war. The fact simply is that there had to be a large reduction in our imports, 61 per cent of which were by way of manufactured goods before the war. These manufactured goods were just not available either because of the prior demand for war goods or the shortage of shipping space.

Similarly, on the export side, the change in composition is only a reflection of the fact that India was used as a supplier of certain categories of manufactured goods to the war theatres in the Middle East and elsewhere. The composition of a country's foreign trade has significance in normal times as it indicates the industrial strength of the country relatively to the other countries with which it is in active contact. Under those conditions a change in composition leading to a higher percentage of manufactured exports to raw material exports would indicate an improvement in the country's manufacturing capacity. But no such conclusions can be drawn from such a change during the war period, for the whole pattern of trade in war time is the resultant of elaborate export and import controls and a number of extra-economic factors. It would be nearer the truth to argue that the level to which our imports as a whole have been allowed to fall measures the extent of privation which we have had to suffer by way of the serious shortage of food and articles of civilian consumption, as also of the machinery and plant necessary for maintaining the capital equipment of our industries intact. The trade policy followed by the Government of India during the war years has thus meant, on the one hand, a reduction in civilian consumption goods and also a wearing down of the country's productive apparatus. The consequence will be that when the U. K. and U. S. A. resume peace-time production, this change in the composition of external trade will be reversed. We shall begin to import more machinery, durable consumption goods, as well as large number of articles of foreign origin, the demand for which has been artificially held in check all these years. Unless steps are taken to allow imports on an agreed basis of priorities, we may have a succession of unfavourable balance of trade which may produce adverse repercussions on Indian Industries.

5. The following table summarises the relative changes in the importance of our main items in the import and export trade:—

Table IV A

Percentage of the value of some principal commodity exports to the total value of exports.

	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44.
Tea	14	13	15	17	17	17
Cotton mfd. & yarn	4.6	4.4	9	17	25	18
Jute	8	10	4.2	4.5	5	3.7
Jute mfd.	16	24	24	22.6	18	21.8
Cotton raw and waste	14.7	14.6	12.4	7	2.9	3.6
Oil seeds	9	5.6	5	4.2	5.4	5.3

Table IV B

Percentage of the total value of imports of some of the principal commodities.

	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44.
Machinery	13	9	7.5	8	9.5	6
Cotton, raw & waste	5.6	4.8	6.0	8.9	14	9
Chemicals, drugs and medicine	3.7	4.6	5.1	5.0	6.0	3.7
Cutlery, instruments, etc.	3.7	3.4	3.2	3.1	3.0	No. fig.
Cotton yarn and mafd.	9.3	8.5	7.3	4.0	1.2	0.65
Grain, pulse & flour	9	13	9	9	0.3	0.7
Oil, veg, Mineral	10	11	13	12	25	18

The main change on the Export side is the diminished importance of raw jute, cotton-raw and waste and oilseeds on the one hand; and the rapid improvement in the position of cotton and jute manufactures on the other. On the import side, the most significant increase is in respect of vegetable and mineral oils, which account for 18% of the total imports in 1943/44, as compared to 10% in 1938/39. The other item showing a comparable increase is waste and raw cotton, the increase in this case being from 5.6% in 1938/39 to 9% in 1943/44. In fact in 1942/43 vegetable and mineral oils accounted for 25% of total imports, and cotton raw and waste for 14%. On the other hand, the imports of grain, pulse and flour and cotton manufactures practically disappeared; and the imports of machinery registered a decline from 13 to 6 per cent of the total.

During the last few months however there have been changes on the export and import sides which give in some respects a different picture. For example, during the first eight months of 1945, the exports of jute manufactures registered large decreases while there have been some increases under oilseeds, raw jute, fruits, and vegetables and spices.

On the side of imports, machinery, oils, metals, paper and vehicles showed substantial increases. The recent relaxation of import controls and the general policy of the Government of India to encourage consumer goods imports are bound not only to increase the volume of our imports but also to affect their composition in favour of consumer goods. For, while, there is need for substantial increase in capital goods imports, such increase will probably take time and will materialise only gradually with the conversion of the U. K., U. S. A., and Canada from war-time to peace-time production. These considerations further strengthen the case for a judicious regulation of our imports during the next few years.

6. The direction of our trade during the war period has been conditioned firstly, by the obvious distinction between the Allies, and the Enemies; secondly, by the internal

conditions prevailing in the different European countries; thirdly, by the availability of shipping, and fourthly by the operation of exchange control. The table* opposite shows the percentage of exports and imports by countries, so as to reveal the changes in the direction of India's foreign trade during the war years. As regards exports, the most striking change is a diversion from non-Empire countries to Empire. Thus, whereas in 1938/39, the British Empire accounted for 52.4%, and other foreign countries 47.6%, of our total exports, for 1942/43 the figures were 67.1% and 32.9% respectively. The year 1943/44 indicated, however, a slight reversal of the trend, the British Empire claiming 64.5% and the non-Empire countries 35.5% of our exports. A further change has been a relative decline in the share of our exports going to the U. K., as compared to the other Empire countries, the percentage going to the former falling from 34.1% in 1938/39 to 30.2 in 1943/44, the percentage going to the other Empire countries going up from 18.3 to 34.3% in the same period. Thirdly, with reference to the share of non-Empire countries in our exports, while, as mentioned above, the total share of these countries has declined significantly, there has been rapid increase in the portion taken by the U. S. A. Our exports to the U. S. A., which were 8.5% in 1938/39 rose to 20.2% in 1943/44. On the import side, the share of the non-Empire countries has shown a tendency to increase at the expense of the Empire countries during the last two years. The imports from U. S. A. have shown a remarkable rise from 6.4% of the total in 1938/39 to 15.5% in 1943/44; the percentage was even higher in the intervening years.

As to the long run significance of these trends it would be rash to generalize. The entire question of the direction of trade is likely to remain fluid for some years to come during which all countries will try to rehabilitate their economic systems and to restore normal conditions. It also remains to be seen to what extent trade between India and Japan will

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* See foot note on page 261

* *This Table is missing in the copy but the information is given in the Introduction pp. 32-44 and is brought up-to-date below.—Editor.*

Direction of India's Sea-Borne Trade (In lakhs of rupees)

Countries	1945 Import	1945 Export (Excluding re-exports)	1945 Balance (Excluding re-exports)	1946 Import	1946 Export (Excluding re-exports)	1946 Balance (Excluding re-exports)
British Empire:						
U.K.	50,43	64,02	+13,59	1,00,88	70,04	-30,84
	21.2	29.3	...	38.4	25.2	
Total British Empire and	90,06	1,30,15	+40,10	1,49,11	1,40,91	- 8,20
Percentage to Total Trade	37.9	59.7	...	56.8	50.8	...
Foreign Countries:						
U. S. A.	71,06	50,70	-20,36	46,41	70,07	+23,66
	29.9	22.2	...	17.7	25.2	...
Japan	...	...	...	...	...	...
	...	...	...	...	...	...
Egypt	17,98	2,99	-14,99	12,63	2,2	-10,27
	...	...	...	...	...	...
Iran	51,30	1,29	-50,01	25,57	2,65	-22,92
	...	...	...	...	...	...
Other Foreign Countries	71,4	32,99	+25,85	28,86	61,56	+32,70
	...	...	...	...	...	...
Total Foreign Countries	1,47,48	87,97	-59,51	1,13,47	1,36,64	+23,17
	...	...	...	...	...	...
Total Trade	2,37,54	2,18,13	-19,41	2,62,58	2,77,55	+14,97

be resumed with the return of normal times. On the whole it appears that India's trade with non-Empire countries is likely to increase in the near future, if, as contemplated in contemporary international discussions, (a) the scheme of Empire Preference is abolished or considerably whittled down, (b) the U. S. A. lowers her tariffs, and (c) multilateral convertibility of trade balances is assured.

7. In our main Report we referred to the desirability of improving the composition and direction of our trade so as to secure a large net gain. Prospects for cotton appear perhaps even less bright than they were at the time the Report was drafted. In regard to other raw material exports also, the considerations emphasised in the Report remain valid, and our policy in the future will have to aim at utilising them for industrial purposes in the country.

It is evident that an improvement in the composition of our foreign trade is contingent on our building up the necessary heavy and capital goods industries. As regards direction, we were able, during the present War, to build up an export market for textile manufactures in the Middle East countries. There are possibilities of increased export trade with a number of neighbouring countries which have yet to develop industrially. While these are possibilities which the future Government will have to explore, we would emphasise here two main considerations which seem relevant in this context. (a) We have to look upon exports more as a means to get the necessary imports from abroad than as a lucrative source of income. The programme of expanding our export market is, therefore, by no means as vital for this country as for the U. K. or U. S. A. This consideration defines our general attitude in regard to export policies. (b) We have at the same time to adopt defensive measures against the export drives which the U. K. and U. S. A. are launching upon; for, the guiding consideration for us is not the temporary gain or loss due to price disparities, but the requirements of the country to build up a more even industrial structure in accordance with an agreed plan.

8. We turn to the consideration of the question of balance of payments.* When our Report was drafted it was necessary to emphasise the essential weakness of our balance of payments position, and outline a policy which would, on the one had reduce our external liabilities, and on the other increase our claims on foreign exchange. During the war years the position has changed radically. We have already mentioned the large export surpluses which we had been having during the war years. Added to these has been the large item of Government of India's rupee expenditure on behalf of the Allied Governments for which we have obtained large Sterling Balances.* The result has been that our sterling debt, which stood at £. 332 millions in 1939/40, has been almost entirely wiped out; and we have to our credit today balances to the tune of Rs. 1600 crores.§ The obvious effect of the wiping out of our sterling liabilities is a strengthening of our balance of payments position on account of the saving of interest charges amounting to about Rs. 14 crores per annum. If a part of the sterling balances is funded, as is likely, we may have to receive interest on the same. This, together with any repayment of the sterling debt or loan of foreign capital, will necessitate the creation of a net inflow of goods into the country, and the balance of

* *In this connection the following observation in the Report on Currency & Finance by the Reserve Bank has to be borne in mind. "The value of the published returns of India's foreign seaborne trade for drawing up a balance of payments statement for the country is impaired by the exclusion of the trade on Defence account which partly involves financial payments as between Governments, and by the inclusion in the trade returns of the lend-lease and reciprocal lend-lease exports or imports on defence account which do not result in money transfers."*

§ *Sterling balances on 28th December 1945, on 10th Oct. 1947*

	28th December 1945	10th Oct. 1947
R.B.I. Issue Department	*Rs. 1105,32,89,000.*	*Rs. 1179,74,34,000*
Banking Department	*Rs. 562,32,85,000.*	*Rs. 386,83,70,000*
Total.	*Rs. 1667,65,74,000.*	*Rs. 1566,58,04,000*

payments position will have to be adjusted so as to accommodate this net income. We must, however, be clear as to what this implies. It is evident that this transformation of India from a debtor to a so called creditor country is a result of external circumstances. It does not reflect an improvement in productive capacity, leaving behind a surplus for lending abroad. On the other hand, this transformation from a debtor to a creditor for a politically dependent country may lead to adoption of policies not in the true interest of the country. It has been argued, for example, that while determining the parity of the rupee, the government of India should keep in mind the need for creating a net surplus so as to make possible a repayment of the Sterling Balances. In the past the Indian Currency Policy was shaped with a view to external liabilities such as the Home Charges. A fixed exchange standard linked with sterling was sought to be justified on this score. Attempts are now being made in certain quarters to justify the same together with a high parity just because India is now a creditor to Britain anxious to receive payments in discharge of this debt in the next few years.

This question of Sterling Balances raises a variety of issues—economic and political—into which we may not go here. The National Planning Committee has recently enunciated its attitude in regard to the repayment of these balances, and we do not think we need add anything to the same. The problem of transfer to which we have made reference could be made easier if the British commercial investments in India were transferred to this country in repayment of a part of the Sterling Balances. As to the rest, while it has to be admitted that repayment presupposes a restoration of equilibrium in Britain's balance of payments, we must emphasise the iniquity of an agreement like the Anglo-American loan, which not only ignores but is likely to injure India's interest in this regard. That loan enables U. K. to rehabilitate her economy with the help of American exports for which she need not pay currently for some years to come. Incidentally this relieves U. S. A. from the bother

of having to receive imports which might create *unemployment* at Home. In so far as this transfer strengthens economic recovery in Britain, and enables a resumption of international trade on the basis of multilateral convertibility, it is a welcome step. The loan, however, explicitly rules out any settlement of past debts by Britain to any of her creditors. This means that we cannot claim any return of our Sterling Balances out of this loan; and that the part of the balances which under the agreement is to be released after a year or so must come out of the current Dollar earnings of the U. K. And these for all we know are likely to be small enough for quite a few years. Another part of the balances is to be paid only after 1951, and the third part, the exact amount of which is not known, is to be written off. Without going into the equity of these arrangements, we may point out that this deal has been put through in order to strengthen the sterling in terms of the Dollar to give Britain a chance to rebuild her economy on a sound footing. The case for an early return of the sterling debt owed to this country is strong in economics and equity. The proper use of them is by way of fostering the industrialisation of this country through imports of capital goods, equipment and plant. There are difficulties in obtaining them from abroad under present conditions, but these are evidently matters of negotiations. It would be a tragedy if these balances, the accumulation of which has meant such large sacrifices on the part of the masses, should be frittered away either to maintain an untenable exchange ratio or to dump imports into this country which would postpone indefinitely the progress of industrialisation.

While considering the balance of payments position we must also note India's need to borrow foreign capital on a fairly large scale in order to be able to put through the large scale plans of economic development we have been envisaging. The terms on which such foreign capital is to be obtained have been elucidated by the National Planning Committee recently. Whether foreign capital on reasonable terms

through the State directly or through private capitalists could be obtained as required, it is impossible to judge at this stage. We raise this point here only to point out the relevance of such borrowing to the consideration of the entire balance of payments position.

9. This brings us to the question of maintaining a proper parity of the rupee so as not to make unduly difficult the balance of payments position on account of an over valuation of the rupee externally. The entire subject of currency management cannot be dealt with by us, as it falls within the province of another Sub-Committee. It is clear, however, that the future course of trade will depend among other things, on the kind of currency policy that India adopts. The currency policy of the Government of India has had in the past a distinct bias in favour of a high external value of the rupee with a view obviously to benefit British exports. During the war, the operation of exchange and other trade controls severed the link between the internal and the external value of the rupee so that the depreciation in the former has not been reflected in the latter. It is true that in countries like U. K. and U. S. A. also there has been considerable inflation, but on the whole, there is little doubt that if exchange rates were to be determined to-day on the basis of purchasing power parities, the rupee would need a considerable degree of devaluation. What price-level this country should aim at in view of the requirements of the different classes of people in the country and for maintaining an equilibrium between prices and costs is a question on which there is room for difference of opinion at the present juncture, especially on account of the paucity of data. There is warrant, however, for the presumption that some degree of devaluation would be necessary in order to put the Indian economy on a reasonable competitive basis as compared with the economies of other countries. An unduly high exchange rate would mean a frittering away of our Sterling Balances. exactly as after the Last War. It would also exercise a deflationary pressure on trade and industry and seriously hamper

the growth of private investment and of employment. Briefly, therefore, from the point of view of the maintenance of an even balance of payments and also because of the need for stimulating investment and employment, it would be necessary to evolve a currency policy in keeping with the objectives of the economic planning which presupposes currency autonomy with exchange control, and other devices at the disposal of the currency authorities to operate on the internal price level and the external value of the monetary unit. But since this course is open to all, the serious dangers that become manifest during the inter-war period, it may not be expedient to insist on full autonomy in this respect.

In our main report we suggested the possibility of dissociating the external from the internal value of the rupee by suitable exchange controls. The Bretton-woods Agreement rules out this possibility except temporarily during the transition period. India has already been committed to the membership of the I. M. F. This would limit our freedom to depreciate the rupee. Technically it would be open to us to give notice that the present rate of exchange was unsuitable and to ask that a particular change be sanctioned by the Fund. Whether this is a sufficient guarantee that we shall be allowed to choose and maintain a correct parity for the rupee is a question for the country to decide before it accepts the obligation of the Bretton-Woods arrangements.

We would urge that this whole question of repayment of Sterling Balances, and the adoption of a suitable currency policy in keeping with domestic as well as external requirements, requires examination at the expert level, and that no piece-meal commitments in regard to these should be accepted until all the relevant issues are thrashed out.

10. The above problems are in turn linked up with another issue, viz. India's trade and tariff policy. The main criterion for India is clear enough. Indian Industries must be developed so as to make good the well known deficiencies in her industrial structure. This implies the retention and even an extension of protective tariffs. The highly indus-

trialised countries, however, are anxious to see a downward revision of tariffs and the abolition of export subsidies, quotas and restrictions on multilateral trading. It is a laudable objective to seek to avoid a repetition of the experience of the inter-war period, when attempts made to work out systems of economic autarchy within national boundaries led to a serious diminution of world trade, and therefore an all-round fall in employment and incomes. There is justification for the contention that we are living in One World, and that the world as a whole needs today a planned expansion of international trade so as to create employment all round. It should not be forgotten, however, that the slogans of free trade and multilateral clearing which have become fashionable of late cannot be used to stereotype present disparities in the industrial development of different countries.

In the past, the trade and tariff policy of India has been conditioned by the requirements of England. It now appears that England's own trade policy has to be adjusted at least to some extent to the requirements of the U. S, A.; and that India is being called upon to adjust her policy to that of this combination in the name of international co-operation. An International Trade Organisation is to be created for this purpose. The proposals for expansion of World Trade and Employment, outlined by the Government of the United States published recently, are an indication of the lines along which the commercial policy of the members of this organisation is to be shaped. There has been considerable adverse comments on these proposals* as also on the Anglo-American loan in British financial circles; and one may legitimately doubt whether the divergent interests of the big powers will allow a concerted policy to emerge and operate. Nevertheless, it must be emphasised that the need of the industrially backward countries are quite different from those of the highly developed ones; that their interest in promoting world trade is different from that of the latter; and that the problem of

See foot note on page 269.

unemployment which they face is also in a way different from the unemployment in the advanced countries, which is traceable to over-expansion of productive activities in certain lines, and the failure of purchasing power, local and interntaional, to expand sufficiently to create a market for the products of such industries. The emphasis in the proposals on equal access to markets and raw materials has hardly any relevance to the needs of a country like India which wants in the main freedom to make the fullest use of her resources without having to make sacrifice in the interests of more powerful countries. A genuine international organisation should render all possible help to a country like India by giving it special facilities in the shape of loans, technical advice and other facilities; but one does not come across any mention of such points in any of the schemes that have been formulated. India's primary need is to have an integrated economic plan and her participation in monetary, commercial and other international arrangements must not impair her capacity to put through such a plan.

* *Compare for instance the following remarks of "The Economist", December 15th, 1945, on the World Trade proposals referred to above:*

The proposals project into the world sphere the pattern of American economic thought and mastery which govern the Loan Agreement. A formal document of this kind must deal in moral generalities: such as economic co-operation; equity in economic relations between States; removal of trade barriers and discriminations; and expansion of multilateral trade. These are implacable aims on paper, and all right-thinking nations would automaticlly subscribe to them, just as they would be a doctrine of non-aggression. If the object of the exercise were the academic one of drawing up a code of commercial conduct applicable to a stable, ordered and equitable world, then this document would be most acceptable. But this is not a stable, an ordered, or an equitable world.

SUMMARY OF DEVELOPMENTS

In the seven years since the Trade Sub-Committee made its first Interim Report, many developments have taken place which radically affect the Foreign as well as the Internal Trade of India. These developments, it need hardly be added, will have to be taken into consideration when a National Plan is framed and put into execution. They were forced by circumstances,—the war-time dislocation of world economy,—though many of them appear to have run on lines which the National Planning Committee would have adopted as and when they came into existence.

Imports Decline

The most outstanding of the wartime changes and developments, consisted in the shutting out of a great bulk of Foreign Imports, mainly of manufactured goods that before the War used to flood the Indian market. This was due to a growing shortage of shipping; and also in part to the diversion of industry in the principal sources of supply of this country

from its normal work to meet wartime needs. Cut off from these supplies and faced with a rapidly increasing demand for such articles within the country, for war as well as civilian needs, India had to make a supreme effort to supply these commodities from her own resources. Industries, therefore, developed, not as part of an integrated, coordinated Plan of an all-round National development, but as *ad hoc* creations to meet particular needs of the moment. Little consideration was given to the suitability and potentialities of these industries to maintain themselves in normal times of competitive trade. No Tariff Board had enquired into the possibilities of these ventures; nor had Government designed a fiscal policy specifically for these enterprises to enable them to make good their position. Some sort of a pledge was no doubt given to tempt capitalists to put up these industries to supply urgent war requirements if they could show, after the War, that they had some chance of survival if properly safeguarded in the years after the war. At the time, however, as price was no consideration, the establishments grew up like mushrooms, were managed so as to rake in all they could while the shower was continuing; and then use the pledge of Government to demand postwar protection to enable them to maintain the wartime scale of extravagance and profiteering.

India pays off Debts and turns creditor

Such adventitious rise of Indian Industry served the wartime need without, however, itself affecting materially the post war normal trade. Another change about the same time, and due to the same cause, was the new development that India had ceased to be a Debtor Country and was, therefore, free from the necessity of maintaining a surplus of imports over her exports, year in and year out, to pay for her foreign obligations. Her wartime prosperity had enabled India to buy out and repatriate her Sterling Debt amounting to some £ 300 millions or more, which had, for nearly a

century, dictated the volume as well as the direction of her trade; and indirectly influenced her Currency, Credit and Exchange policy. Having paid off her Sterling Debt between 1939-1942, India became a Creditor on an accelerating scale. Till now she has an accumulated Sterling balance to her credit of some £ 1200 million. In fact if she had paid all her dues as fully and honestly as she has been made to pay in the past when she was a Debtor, she would have a much larger trade balance in her favour than ever before. For, besides paying off her wartime debts owed abroad, she is also liquidating rapidly other items of her so-called Home Charges,—War Office Charges, Stores, Civil and Military pensions and allowances to British servants of India—which had compelled her to maintain a most injurious Currency, Credit and Exchange to the grave prejudice of her own national economy. If, therefore, after the War, she were forced to increase her imports without a corresponding counterpoise in exports, such adverse balance in the post-war years would not affect her trade and economic structure in the least. This possibility in postwar years is undeniable, especially if India makes up her mind intensively to develop modern industry within her own frontiers; and carry out her objective of a National Plan of attaining the maximum degree of National self-sufficiency that her own resources in men and material would justify.

Britain Refuses to Honour Her Bond

At the moment of writing, however, the chances are that she may not be paid her full dues. The accumulated Sterling credits aggregating over £ 1200 million, are likely to be "Bad" Debt according to the latest public declarations of responsible British Statesmen. It is obvious Britain is not in a position to redeem her pledge, even if she wanted to do so, as the amount due to India in that case would mean an unbearable strain on her war-worn economy. For even

at 2% interest per annum with a *pro rata* discharge also of the capital amount, it will mean a credit due to this country of very nearly Rs. 60 or Rs. 65 crores, for perhaps fifty years to come, or, in other words, a surplus of British exports of about £ 50 million per annum. For India such receipts would more than meet all likelihood of adverse Balance required to build up modern industry, and develop the resources of the country to their maximum potential.

It is, however, no open secret that Britain is neither able nor willing to meet her obligations on anything like the scale suggested above. Whatever may be the ethics of this question, economic and political factors combine against India, and all other Creditors of Britain. The result is that we might have to be content with a very much smaller amount,—if any at all,—in the immediate post-war years. Bereft of this our due, and intent upon carrying out a comprehensive National Plan, India may have to have recourse on her own credit to borrow abroad in the common money-market of the world today, namely the United States of America. This borrowing, however, would be much more secure and easy to repay if the Plan is scientifically framed and energetically carried out. It is needless to estimate at this stage the volume of such borrowing likely to be needed to carry out a comprehensive National Plan of all round development. Much will depend upon circumstances that develop when once the Plan is in execution, as also upon the international policies that may hereafter come to be adopted. India may create her own surplus also, as the Plan proceeds, which may be mobilised and reinvested in the furtherance of the Plan. The important fact to notice is that India's international position in regard to Trade and Credit has been materially changed from that of a Debtor to a Creditor Country; but that change is likely to be of not much avail. If, therefore, the post-war characteristic of India's foreign trade,—namely of excess of exports over imports,—disappears in the post-war years because of her determination to put into effect an all round Plan of intensive and rapid develop-

ment, she must prepare to recover that feature of her trade as soon as possible, if not with those countries with which she used to have a surplus in the past, with others whose credit and economic strength would be no less secure.

Rupee Parts Company with Sterling

Incidental to this change, and perhaps as a consequence of it, is the change, recently effected, whereby a fifty year old connection between the Pound Sterling and the Silver Rupee has been severed. There were no regrets for the break, for there was no advantage of the link. Reference has been made in the introduction to the vicissitudes of the Rupee-Sterling Exchange in the last fifty years and more. There is, therefore, no need to go over the same ground again in this case, beyond observing the fixed ratio of the Rupee to the Pound Sterling was maintained at considerable loss to this country; and, only so long as it was convenient and in the interest of British Economy to do so. Now, however, with the advent of Indian Independence, one of the first signs of the new era was the declaration that the Rupee Sterling link must be broken; and the rupee follows its own destiny, whatever that may be.

Freed from the leading strings of a fixed ratio, with a weak, artificial standard of value, the international standing of the standard Indian coin may be, for some time to come, a prey to conditions and circumstances which are not exclusively within the control of this country to influence and so the rupee may meet with vicissitudes in international exchange which need not frighten us. The Balance will soon be readjusted if internal disorder does not dislocate our national economy and prevent the execution of a country-wide Plan. The intrinsic strength of this country will assert itself in no distant future; and, if the Rupee is managed prudently and the resources husbanded properly, its value in the world market will be as stable and lasting as it was ever

in the past.

The World has an International Monetary Fund

This is not the place where any indication need be given regarding the future trend of our currency and exchange policy. Another Sub-Committee deals with that matter and so the problem need not be discussed here. Suffice it just to add that even if the link with the Rupee is broken, the accession of India to the Monetary Fund and her participation in the arrangements made for stabilising World Exchanges at Bretton Woods will require her to adopt some kind of a Gold Standard in which the Silver Rupee may be only a token coin.

The Rupee only a Token Coin

In fact a reduction in the silver content of the Rupee during the War, and the latest determination of the Government of India to debase the coin still further, make it more than evident that the Rupee will remain, even after Independence, a token coin; and that our standard of value will be an abstraction, expressed as a weight of Gold since Gold continues to be the only medium for the settlement of international balance of accounts. The only difficulty is that the United States are monopolising all the gold of the world; that India's secret hoards have been drained away; and that therefore, international balance of accounts will have to be settled more than even before in kind.

Controls have come to Stay

This is a group of connected changes and developments, which have the most striking repurcussions on the nature,

and volume, as well as the content and direction of the Foreign Trade of India. Those sectors of the National Economy on which Trade depends like indigenous industry, will be affected in consequence. No less important in their own way than these changes are certain other war-time developments which still continue to affect the entire economic life of this country and trade as part thereof. The most outstanding of these is a System of Controls, Price Regulation, and Rationing of Supplies, which were originally introduced as war-time measures but which have remained operative even two years after the War has ended. Judging from present trends, it is likely they will continue in full force for years hereafter, if the National Economy is not to be thrown out of gear by a sudden turnover. As in the case of industrial developments, this region of price control, rationing and regulation of supplies, was also not devised and introduced as an integral part of an all-round Plan. Like the other, it was, and still remains, an *ad hoc* series of measures which are not mutually integrated and coordinated. There are, therefore, frequent occasions for complaint when the system of controls operates with considerable difficulties.

Controls and Corruption

A new parasitic fungus has come in the wake of these controls, viz. corruption in high places. The administration—and even the basis—of these controls makes easy to operate, and difficult to expose this excrescence. The presence of corruption affects the general morale all over the country, which cannot but have its repercussions in the economic efficiency in every aspect of our national economy.

Controls necessary also in Planned Economy

Apart from this unwelcome feature, however, the

system of Controls and Regulation has one advantage, namely, familiarising the people with a regulated economy, and so accustoming them to what would be undoubtedly an outstanding feature of the National Plan, as and when it is put into execution, namely, silent Regimentation through controls. This may not be welcomed as a blessing by those schooled in the philosophy of laissez-faire. But that philosophy is now dying out, and nowhere operative in daily life today,—not even in the countries which claim to have absolute freedom of private enterprise and individual initiative. Certainly no Planning would be possible, much less its execution on an All-India basis, unless some Central Body has the power and authority to control, inspect, regulate, and supervise, as well as enforce directions or injunctions that it may be necessary to issue as the result of inspection that may have been carried out in the normal process of supervision. This, moreover, pre-supposes a considerable field left free even under private economy to private profit seeking enterprise. It is, however, highly probable that a Scientific Plan would, by its very nature, inexorably tend to greater and greater control by some Public Authority over all facets of the National Economy,—Production and Distribution, Trade and Finance, which would be little short of Socialisation even where, theoretically, private enterprise is left to operate freely.

India changes Customers

A third development of the same kind is the disappearance of some of the pre-war sources of supplies, or customers for India's commodities; and their place being taken by others. This also will affect our Foreign Trade more and more in post-war years. From the list of our sources of supply, we must keep out, for years to come, Germany and Japan,—not only because the economy of these countries has been shattered; but because their place is being increasingly

taken up, while they remain prostrate and shaken, by more fortunate rivals. It will be no small task for the new Rulers of India to see that their place is not appropriated by economically more advanced countries like the United States of America or even Britain, who may then quietly take the resources of this country into a new mortgage to themselves for their own benefit. On the contrary, India must rise to her full stature, so that, at least in her own markets she takes up as much and as soon as possible, the share of her foreign trade that Germany and Japan used to take before the War.

Decline and Fall of Imperial Preference

Of the new customers and sources of supply, we see most prominently the United States of America, and some of the countries of Africa and Asia that are nearer at hand. Countries of the British Commonwealth of Nations, with the United Kingdom leading, have had in the past a very large share of India's imports as well as exports. It is unlikely, however, that the position of the Commonwealth, or any single Member thereof, would be maintained. Devices like that of *Imperial Preference*, which was forced upon us in 1932, notwithstanding the universal protest in the country, are not now likely to come into operation. The post-war fiscal policy of the country, whatever it may be, will be shaped exclusively in the interests of the country itself, and without thought of other countries' needs or requirements.

Accordingly, it is not too much to hope that what Germany and Japan have lost in the Indian Market, India herself will gain, and no one else. This does not mean that the Trade of India will shrink in the years to come. The planned economy of the post-war age will not be closed economy. Trade will be there; only different in content, as well as in direction.

Search for New Customers: Russia

Not only pre-war customers and sources of supply like the United States of America are still vigourously present in our market; there is a possibility of other customers, no less important, arising, if only our Trade Policy is directed to that end. The U. S. S. R., for example, does not figure today very prominently in the list of India's customers, or her sources of supply, mainly because the economy of that country is based on and motived by principles radically different from those hitherto governing this country. That, however, is not a reason why, when once India is freed from the leading strings of British Economic Imperialism, she should not seek the best customers and most economic sources of supply she can find anywhere in the world. Russia may have a great leeway to make up in rebuilding her own industries after the War, and improving the standard of her people's living. In the immediate post-war period, therefore, she may be more than occupied with producing mainly for local consumption. The inherent strength of that vast country, and the potentiality she has already shown of rapid development, make it by no means unlikely that she may, within a decade, become one of the leading Nations trading in the world both for export and import, in raw materials of industry as well as in manufactured goods.

Lands of the Far East

More than the U. S. S. R., countries of South East Asia, which are also getting to be emancipated from the domination of European Imperialism, such as Indo-China or Thailand, Malaya, Indonesia, Burma and Viet Nam, are all intrinsically rich tropical lands, which promise infinite possibilities of development. And that development may well be expected to take giant strides in the immediate future, once they are free from the hampering and restrictive domination of alien

interests. When they so develop, it is but fair to expect that their more advanced and better developed neighbour, one more richly endowed and more largely populated, may prove to be the best customer at well as source of supply for them. Trade will not be forced, but run on more natural lines bringing equal benefit to both parties.

The same will apply with no less force to countries of East and South Africa and other West Asian lands. These were, in the remote past, our good customers as well as sources of supply. And if, and in proportion as, they become free from the constrictive colonialism of the West, they too will attract our trade, both Imports and Exports, to a steadily increasing degree.

Trade turns Inward

But even if none of these expectations materialise, India is herself such a vast country so largely populated and so richly endowed, that she may well expect to develop her inter-regional trade within her own frontiers. That would make up for all the vicissitudes that our foreign trade may come to suffer in the post-war reconstruction and re-adjustment.

Looking upon Trade as an integral part of a National Plan, we take it, of course, that our inland Trade would be so regulated and developed as to make it a first charge, so to say, on the developing national economy to meet progressively more and more the expanding National Demand, thereby improving the standard of living. This ground has already been covered in part in the Introduction. It is, therefore, unnecessary to labour the point any further, beyond observing that the possibilities of Internal Trade were utterly ignored and wholly subordinated during the British domination of India; and that when that domination disappears, the intrinsic merit of this feature will assert itself.

Atlantic Charter and Trade of India

The Summary of War time developments will not be complete without a mention of the New Trade Policies being suggested by the leaders of the United Nations. In the midst of the War when Britain was hard pressed to maintain not only her struggle, but even her very existence as a Nation, she agreed with the United States to what has subsequently been known as the Atlantic Charter.

The most important provision in that document relating to International Trade is one which would secure free access to raw materials to all countries, and abolish all barriers or impediments to the freedom of world trade. Article 4 runs:—

> "The United States and the United Kingdom Governments will endeavour to secure fullest enjoyment by all States, great or small, victor or vanquished, of access on equal terms to the trade and to the raw materials of the world".

Following this general provision, the two leading countries made a master agreement, as part of the lend-lease scheme, to join in the endeavour to eliminate all trade barriers such as they existed at that time, and which were believed in a great measure to be responsible for the War. So far, however, as these advanced countries are themselves concerned, they have arrived at such a pitch as to render any artificial protection by way of fiscal policy or tariff charges in the interests of their own industry unnecessary. Their own prosperity also lies in the fullest possible development of world trade and free access by all to raw materials.

But such a policy cannot be accepted without qualification or condition by countries like India which have to make up a great lee-way in their own economic development. Their available and potential resources have not yet been developed and exploited to the degree they should be. Their markets are starved and dumped upon; and their people living in conditions which are a disgrace to a civilized progressive community. The new India of the Post-War age, an independent Republic by itself, must attend to our own

immediate requirement as amongst the most urgent of the economic needs of the country. Whether or not a comprehensive plan for an all-round development is prepared and carried out, the new popular Government of the Indian Republic cannot but take steps for an adequate and effective protection to safeguard the indigenous industry and secure the local market in as large a proportion as possible. To gain this end, Government will have to adopt every method or expedient that has already been tried out in the West, or which may seem more appropriate to our conditions and circumstances. Whether it be by Tariff, Bounties, or Subsidies; or some form of more direct aid, to industry in this country, the State will have to see to it that it develops rapidly and effectively so as to supply all our local demand at least.

The presence of the Indian delegates at the International Conference on Trade Policy at Geneva, in pursuance of the pledges given in the Atlantic Charter, will assure India's co-operation to the full, subject, however, to her own interests being considered paramount. We do not despair of reconciling the International harmony and co-operation, with a country's right to consider and protect her own immediate interests above all. We are in fact convinced that without such planned development to the maximum potential in every country, the chances of sucess for the United Nations Organisation would be impossible. Hence it is that the trade of India in the post-war age will in the first instance have to depend more and more on the inter-regional exchange within the country. Only after those needs have been met, we may seek other markets farther afield. It is the declared and settled policy of the National Planning Committee not to plan, develop or expand her industries primarily for export. And so, if we would not run the risk of being involved in International complications, attention to our own internal trade possibilities is indispensable.

Printed by Shantilal O. Modi at Ila Printery, Fort, Bombay, and Published by M. K. Vora for Vora & Co. Publishers, 3, Round Building, Bombay.